THE UNIVERSITY OF WARWICK

MANAGING SOCIAL RISK THROUGH STAKEHOLDER PARTNERSHIP BUILDING

EMPIRICAL DESCRIPTIVE PROCESS ANALYSIS OF STAKEHOLDER PARTNERSHIPS

FROM BRITISH PETROLEUM IN COLOMBIA AND HOECHST IN GERMANY

FOR THE MANAGEMENT OF SOCIAL RISK

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A THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN INDUSTRIAL AND BUSINESS STUDIES

February 2000

Table of Contents

Acknowledgements

Like many PhD students, I undertook my research with grand ambitions. Fortunately, my supervisors, Professor John McGee and Professor David Wilson, provided me with sufficient constraints to narrow down the research scope, while at the same time allowing me enough freedom to experiment with novel ideas. My thanks are due to Dr Malcolm McIntosh, the director of the Corporate Citizenship Unit at Warwick Business School, and to Chris Marsden OBE, the founding Director, who provided me with an intellectual home that supported my ambition and contributed critically to the accomplishment of my research. As a research fellow of the Centre for Creativity, Strategy and Change at Warwick Business School, I had the opportunity to work and to conduct research in a stimulating, encouraging environment.

In particular, I would like to acknowledge my personal debt to David Rice from British Petroleum and Dr Carsten Henschel from Hoechst, who supported me in various ways during my fieldwork. I owe a debt of a very different nature to the Strategic Management Society and the International Association of Business and Society, both of which provided a forum whereby I could test my ideas and forge many academic friendships.

During the development of my research, I had contact with various organisations that helped me not to get lost in the academic world. Especially, I would like to express my gratitude to Jane Nelson from the Prince of Wales Business Leaders Forum and Dr Simon Zadek from the Institute of Social and Ethical Accountability. Appreciation is due to the support of the Friedrich-Naumann-Stiftung that also made this research possible and the editorial support of Dr Gerard Sharpling, based in the Centre for English Language Teacher Education at the University of Warwick.

More than anyone else, my girlfriend, Dr Cornelia Freytag deserves credit for the fact that this thesis is written. My heartfelt thanks go to her for the patience and encouragement, and her willingness to stand by me through all the subsequent joys and frustrations. She supported my dissertation with constructive criticism, but also simply by being there.

Declaration

Except for commonly understood and accepted ideas, or where specific reference is made, the work reported in this dissertation is my own and includes nothing which is the outcome of work done in collaboration. No part of the dissertation has been previously submitted to any university for any degree, diploma or other qualification.

Any interpretations inherent in this dissertation are the sole responsibility of the author and in no way represent the view of the organisations reported on in the case studies, nor of the Warwick Business School. Organisational functions or societal roles replace names of interviewees.

Jörg Andriof

February 2000

This dissertation has 251 pages (80,218 words), including appendices and references.

Abstract

This thesis sets out to provide a systematic study of stakeholder partnership building of BP in Colombia and Hoechst in Germany in the context of social risk management. Each company built an NGO and a community partnership that became an integral part of firms' strategy. In examining and evaluating the two companies and the four stakeholder partnerships, the leading research question of how firms build stakeholder partnerships is answered. The present study seeks to identify the characteristics of stakeholder partnership building, as well as to isolate the similarities and differences of this process. Additionally, it is an attempt to define the features of the firms' social risk navigation as context of this research project.

The thesis is divided into four parts. The first part introduces the research phenomenon, reviews conceptual foundations, and elaborates methodological issues. The case studies of BP and Hoechst are subdivided into internal processes of social integration and reintegration with regard to the two companies, and external processes of partnership building with regard to the four stakeholder partnerships that are chronologically presented in part two. Part three conceptualises stakeholder partnership building in terms of navigating social risk and partnership alchemy. Finally, part four comprises the research synopsis and reflection.

Business and society, stakeholder theory, and strategic relationships are the theoretical areas that contributed to the framework for analysing partnership building. Two longitudinal in-depth case studies provide qualitative data for the processual analysis. The empirical data are categorised, aggregated and compared, in order to extract research findings.

The contribution of this research is the extension of behavioural stakeholder theory. It develops is a stakeholder partnership building theory that comprises three parts. First, the 4-Ps of stakeholder partnership building are identified. Second, variables are isolated that describe these elements of partnership alchemy. Finally, four patterns of stakeholder partnership building are identified. As a result, the research presents four propositions for partnership building. Based on the analysis of firms' navigation of social risk, a fifth proposition distinguishes between firm-specific and partnership-specific partnership building. The empirical data provides a contribution to knowledge in its own right by providing detailed insight into the practice of social risk management through stakeholder partnership building.

List of Abbreviation

CAP	-	Community Advisory Panel
CEP	-	Council on Economic Priorities
CDG	-	Community Discussion Group
CECODES	-	Colombian Business Council for Sustainable Development
CIIR	-	Catholic Institute for International Relations
CSR	-	Corporate Social Responsibility
DSC	-	Defence System Colombia
EIA	-	Environmental Impact Assessment
ELN	-	Army of National Liberation
FARC	-	Revolutionary Armed Forces of Colombia
FAZ	-	Frankfurter Allgemeine Zeitung
HSE	-	Health, Safety and Environment
IAG	-	Inter-Agency Group
LTO	-	Licence to Operate
MEP	-	Member of the European Parliament
NGO	-	Non-Government Organisation
OIAS	-	Operations Integrity Assurance System
PREP	-	Product Risk Evaluation Process
PROSA	-	Product Sustainability Assessment
ROCE	-	Return on Capital Employed
SBU	-	Strategic Business Unit
SD	-	Sustainable Development
SIA	-	Social Impact Assessment
SMP	-	Strategic Management Process
SPB	-	Stakeholder Partnership Building
TNC	-	Transnational Company
WBCSD	-	World Business Council for Sustainable Development
WiWo	-	Wirtschaftswoche

Table of Tables

Table of Figures

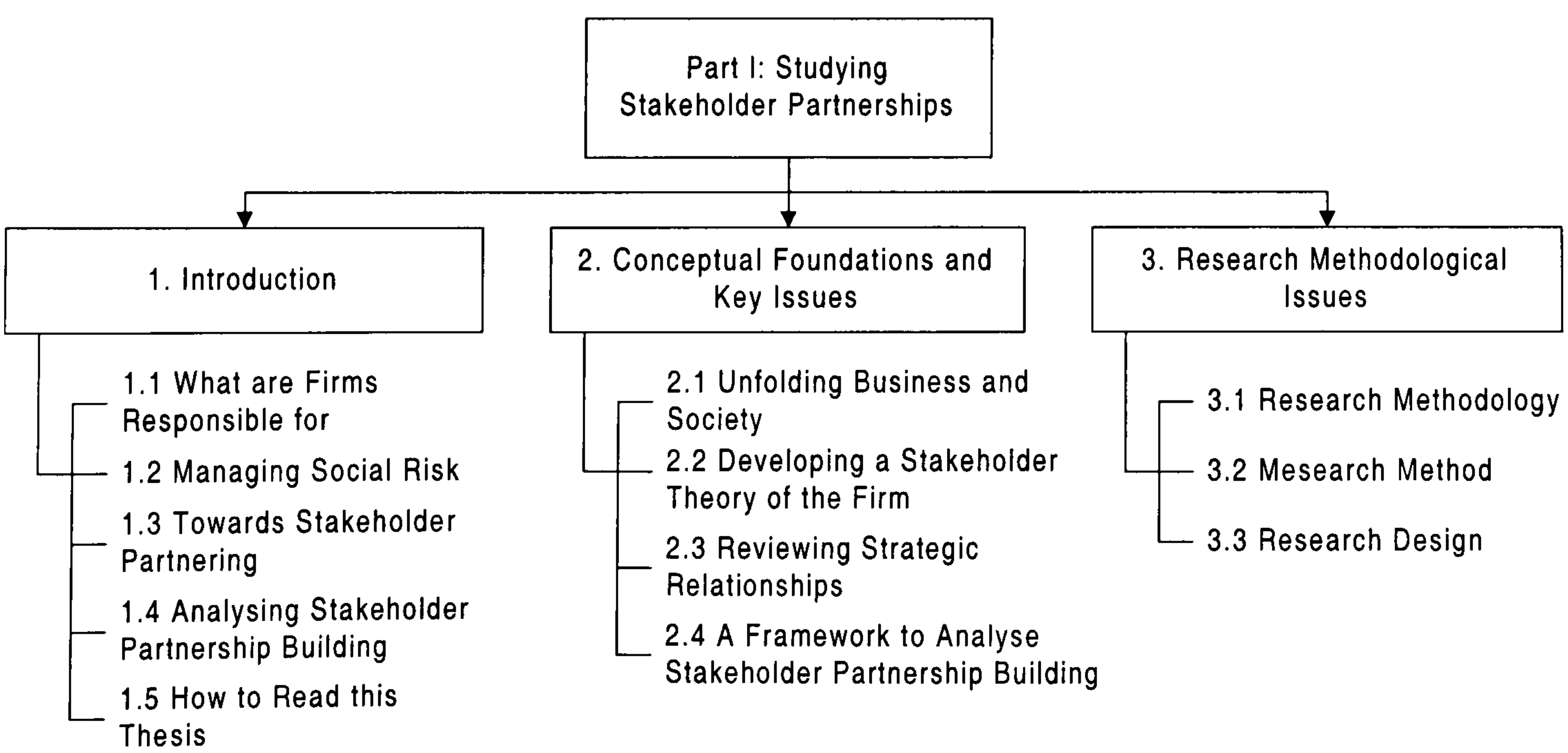
Part I Studying Stakeholder Partnerships

We are searching for dialogue. We need bridges and each bridge needs two banks. We would step braver on the bridge if the critique from the other bank hit more rather than hurt. In reverse, we would find together, if we did not blame you for being ignorant of reality, as if there were a monopoly on the recognition of reality.

Fjodor Dostojewski (1996)

Dialogue is at the core of each stakeholder partnership which aims to manage social risk. Firms have changed their strategies from buffering environmental impact to providing a bridge with the environment, and recognising the importance of environmental issues that are associated with certain stakeholders. Building bridges is the structuring image which characterises building stakeholder partnerships. Thus, finding the right partner and working together requires both openness and recognition of the changing business practice as regards all partnering stakeholders.

The first part of this thesis consists of the introduction, literature review and methodological overview, which together provide a basis for the research. The introduction imparts understanding of the importance of this research, giving a research outline and a reading guide for this thesis. The literature review analyses and presents conceptual foundations and key issues relating to underlying theories, which lead to an applied framework for analysing partnership building. Finally, the third section – research methodological issues – concentrates on research methodology, method and design.



Chapter 1 INTRODUCTION

Companies that engage in corporate social responsibility strive to provide more than just financial benefits to society. Sometimes referred to as 'stakeholder corporations', these companies look for ways that they can provide assistance for communities in need, preserve the environment, and invest in human development.

Johnathan Lash (1998)

By way of introduction to this thesis it is important to consider three essential issues: corporate responsibility, managing social risk and stakeholder partnership building. This chapter provides an outline of each of these, so as to provide an insight into, and an understanding of the context and relevance of the research area. It then sets the boundaries of this analysis by presenting key analytical issues such as research objectives, unit and level of analysis, research question and expected outcome as well as applied research method. The final section provides a guide for how to read this thesis.

In deciding what firms are responsible for, the introduction focuses on changes in business practice. Insight is provided into what corporate social responsibility is and which areas it encompasses. New business issues such as globalisation and information technology are identified as drivers for the growing importance of social responsibility (Warhurst, 1998b).

Here, risk management is seen as a means by which social responsibility may be implemented. Social risk is produced, and hence, it needs to be managed within modern society. As a result, risk may be seen as a systematic way of dealing with hazards, uncertainties and insecurities induced by modernisation (Franklin, 1998). Stakeholder partnership building is considered as a way to manage social risk.

Partnerships are not a new phenomenon. However, relationships between business, society and government have undoubtedly entered a new stage and have become crucial for the long-term survival of business. The shift towards stakeholder partnering not only establishes the terminology applied for this study, but also provides some insight into the history of partnerships and the underlying rationale.

1.1 WHAT ARE FIRMS RESPONSIBLE FOR

Table 1 provides selected highlights of critical incidents, new standards, initiatives and institutions associated with the role of business in society, and illustrates the importance and timeline of these matters. Indeed, critical incidents show that the wider role of business in an increasingly global, ecological and social environment clearly does matter, and the new standards, initiatives and institutions which have grown show that business is increasingly involved in addressing the relevant issues. The table also demonstrates that while ecological issues predominate early on, issues concerning human rights and social exclusion have assumed equal importance, and all of them are now being approached in a more holistic way, under the general heading of sustainability.

	Phase I: 1960 – 1983 Awakening	Phase II: 1984 – 1994 Engaging	Phase III: 1995 – today Networking
Critical Incidents	Nestle Baby Food '70 Seveso Disaster '74 Amoco Cadiz Oil '78 Ford Pinto '78	Bhopal '84 Chernobyl '86 Chico Mendes '88 Exxon Valdez '89	Shell - Brent Spar '95 Saro-Wiwa Execution '95 Nike Child Labour '96 Asian Financial Crisis '97
New Standards and Initiatives	US Environmental Protection Act '69 Club of Rome '72 Brandt Report '80 Global 2000 Report '80	Responsible Care® '85 Brundtland Report '87 UN Summit for Children '90 Rio Earth Summit '92	Apparel Industry Partnership '96 ISO 14000 '96 SA 8000 '97 Triple Bottom Line Concept '98
New Institutions	Council on Economic Priorities '69 Greenpeace '72 UNEP '73 World Resource Institute '83	Third World Network '85 Caux Round Table '86 SustainAbility '87 PWBLF '90 Amnesty Business Group '91 WBCSD '91	EBNSC '95 Warwick Corporate Citizenship Unit '96 Ethical Trading Initiative '97 Business Partners for Development '97 CEPAA '98

Table 1 From Awakening to Networking

Becoming involved with social issues can, inevitably, take a company's eye off the ball and risks a drop in productivity. Companies may be ill-suited to such work and there is no legal or democratic basis for it. Social investment may be seen as a misuse of shareholders money, which should instead be returned to them for their use as they see fit (Levitt, 1983). Such views are an integral part of the 1980s shareholder value debate, which succeeded in increasing the focus on companies' core business activities, including aligning social investment much more closely with business strategy. The idea that business has a broader corporate responsibility is strengthened through the development of the global economy. The enhanced legitimacy and liberation of private enterprise in the late 1980s and early 1990s, coupled with an exponential growth in enabling global networking technology, have led to the dominance of what may be termed global information capitalism (Meralin & McGee, 1998).

The Millennium Pool[1] asked people to describe in their own words how they form impressions of individual companies, allowing two mentions each. One in three mentions attributes related to business fundamentals, while four in ten mention traits such as brand quality, corporate image or reputation. However, a majority of nearly six in ten mention factors related to a company's broader responsibilities such as labour practice, business ethics, responsibility to the society at large, or environmental impacts.

How, then, may corporate social responsibility (CSR) be defined, and what are the implications for business operations? CSR is neither chequebook philanthropy nor is it limited to the study of business ethics. Rather, it arises from a deeply held vision on the part of corporate leaders that business can and should play a role beyond just making money (Reich, 1998). It embraces an understanding that everything a company does has some knock-on effect, whether inside or outside the company, from customers and employees to communities and the natural environment. In a nutshell, then, CSR encompasses the environment, the workplace, the community, and the marketplace.

Within these four areas, companies are able to bring about differences in working practice by conducting specific programmes and actively becoming involved in monitoring and changing the effects of their operations. The thinking behind companies becoming involved in these issues represents a marked departure from traditional ways of doing business. This fundamental shift in thinking and acting is underscored by a series of new beliefs common to most socially responsible businesses such as (Waters, 1995):

- Employees are most productive when they do meaningful jobs at fair wages, in a healthy environment, when they are empowered to have a say, and are respected for their contributions, and have a good balance between work and family life.

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[1] The Millennium Pool is an opinion research poll carried out by Environics International Ltd. in co-operation with The Prince of Wales Business Leaders Forum in London and The Conference Board in New York.

- Companies function best in the long run when the community they are in is healthy, has a below average crime rate, adequate education and health care, available skilled labour, and robust economic activity.
- Companies that treat the environment with respect in all aspects of their operations may be seen to have reduced waste output, and at the same, have produced higher quality products and services, high resource efficiency, reduced costs of regulatory compliance. They have also tended to experience a low incidence of litigation, and enjoy a high degree of loyalty both customers and business-to-business clients.
- Companies must take a long-term view of their operations and make decisions. That is, they need to consider a more holistic view of the world. Sometimes this means forgoing short-term profits in favour of long term benefits.
- A company's reputation is becoming more and more important as consumers and investors consider reputation and performance as just important as price in making purchasing decisions. (Waters, 1995)

Some of these beliefs may be a seen to pertain somewhat to a new age, and may even seem at odds with more traditional beliefs. Of course, it should not be forgotten that profitability is also a sign of social responsibility, in that it allows, for instance, a business to provide sustainable jobs for employees, good returns for investors and prosperity for the communities in which they operate. Therefore, why should one now bother with all these corporate responsibility concerns if profitability provides jobs and prosperity anyway? Several separate but interlinked forces have combined over the past years to bring business to where it is now (Castells, 1998):

DEREGULATION AND GLOBALISATION – has provided business with many opportunities. Amongst these has been the ability to compete in most of the world's markets; the ability to raise funds from numerous competing sources. Of equal importance has been the opportunity to buy supplies from anywhere in the world. The effects of these changes have included more competitive local markets, cross-cultural business investments and transactions, and many factories are located so as to make use of cheap labour.

RAPID ADVANCES IN COMMUNICATION TECHNOLOGY – have succeeded in allowing information to be relayed around the globe almost instantaneously and with minimal costs. There are few areas of our society that have not been affected by the remarkable changes that have occurred in communication technology and those that are still developing – e.g. the Internet.

THE RISE IN THE POWER OF THE CONSUMER – the combination of the three forces above has resulted in what many have termed 'the information age'. With access to; instant, free information from a variety of sources, a multitude of service and product providers; a multitude of global investment opportunities and the unopposed spread of capitalism as the dominant economic structure; the rise in the power of the consumer may be seen to have been unrestrained.

The net outcome is that people now live in a world where corporations are more overtly consumer and employee orientated, given that consumers and employers hold the ultimate power in the system. Hence, the answer to the question of 'Why social responsibility now?' is that consumers and employees are now well informed about the challenges facing the world, and have less faith in government's ability to change things. Furthermore, they acknowledge the corporation as the most powerful social construct of the present era and, most importantly, they are willing to reward corporations who are responsive to their concerns.

In addition, it is worth noting that many large firms who have become converted to this new way of thinking require their suppliers to provide details of their policies with regard to social responsibility. Herein lies the most powerful force for change, as it is by these actions that large corporations can effectively exclude suppliers from the marketplace if they are not socially responsible. Child labour and diversity are important issues within this context.

Regardless of the importance and impact of social responsibility, the fact remains that corporate responsibility is likely to become a more significant issue in the 21st century. The ramifications of not addressing best practice in the four areas of environment, workplace, marketplace and community range from poor media coverage to exclusion from some marketplaces. Therefore, social responsibility is an area that corporations will ignore at their peril.

good & well articulated but needs evidence to literature back
style issue

1.2 Managing Social Risk

Changes to transnational companies (TNC) portray to a great extent global economic cycles, trends, and crises, as well as political, social and cultural change. Over the past 20 years, the reputation of TNCs has fallen steadily, primarily because of disconnection from society and the risks that business produces and imposes on society. In the next 50 years the global population will grow by at least 60 per cent. To stand still, in unit terms, global gross domestic product must increase by 60 per cent by 2050. Social progress relies on economic progress which, in turn, depends on TNCs (Gibson-Smith, 1998). Examples for today's social risk areas are:

- Damage to health, safety and environment from production processes and products;
- Perceived risks that new technologies in R&D pose;
- Waste disposal;
- Behaviour of TNCs in less developed countries;
- Profit making from harming the society and/or environment;
- Misleading advertising, downplaying risks; and
- Environmental compatibility of the industry.

Consequently, one of the underlying drivers for corporate responsibility is the need to manage a company's strategic risk in terms of mutual impact from and to society. Scientific and industrial developments will inevitably result in risks and hazards of considerable proportion. Meanwhile, the tangibility of need suppresses the perception of risks, but only the perception, not their reality or their effects; risks denied grow especially quick and well (Lash et al., 1996; Löfstedt & Frewer, 1998). In contrast, Beck (1992) states that "the devil of hunger is fought with the Beelzebub of multiplying risks" (p. 43). He developed the sociological interpretation of a risk society. The intermingling of continuity and discontinuity is discussed with examples of wealth production and risk production. In other words, the gain in power from techno-economic progress is increasingly overshadowed by the production of risk. According to Beck et al. (1994), today's society is no longer concerned exclusively with making nature useful, or with realising mankind from traditional constraints, but primarily with problems resulting from techno-economic development itself.

Beck's concept of a risk society implies that hazardous side effects are likely to pollute the source of wealth. Therefore, what becomes clear in risk discussions are the fissures and gaps between scientific and social rationality in dealing with the hazards potential of civilisation. Beck (1992) proposes that the insecurity within has industry intensified: no one knows who will be affected next by the anathema of ecological and social morality. Positive arguments, or at least arguments capable of convincing the public, become a prerequisite for business success, while arguments of accountability require accountable actions. This is the effect of the reflexive modernity, an ecological and social enlightenment, as referred to by Beck (1998) and Giddens (1999a).

The idea of risk appears to have taken hold in the 16th and 17th centuries, and was first coined by Western explorers as they set off on their voyages across the world. The word risk seems to have come into English through Spanish, where it was used to refer to sailing into uncharted waters (Giddens, 1999b). Originally, the term was closely aligned with the notion of space. Later, it became transferred to time, as used in banking and investment, – to mean the calculation of the probable consequences of investment decisions for borrowers and lenders. It subsequently came to refer to a wide range of other situations of uncertainty. This research simply defines risk as exposure to change. It is the probability that some future events, or set of events, will occur. Risk is a systematic way of dealing with hazards and insecurities induced by modernisation (Franklin, 1998).

Social risk management as the context of this research – sometimes referred to as navigating social risk – is at present a collective term for a variety of activities concerned with avoiding, reducing and controlling risks as well as improving benefits (Waring & Glendon, 1998). In the extensive field of risk management, four key dimensions may be identified: hazards or threats, risk contexts, risk management objectives, and risk management methods. Integration of different risk management functions, disciplines and activities remains weak or non-existent in most organisations (Waring & Glendon, 1998). Senior management of organisations tends to have a poor understanding of the scope of social risk management, implications for strategic risks and the organisational and resource requirements for addressing these adequately (De'Ath, 1997). However, increased awareness of social risk issues and implications is likely to lead to more organisations adopting an integrated approach to social risk management, including stakeholder partnership building.

1.3 Towards Stakeholder Partnering

The focus of strategy needs to be much broader than the traditional product/market approach of Adam Smith's day. Strategy now engages managers in considering a complex array of factors, of which the social context in which the company operates is an integral part. Furthermore, it requires the value-generating function of the company to be thought of as constituting a set of relationships – with employees, customers, suppliers and community interests as well as shareholders – which can add or subtract value and from which the company derives its ability to go on creating value.

Partnerships between individuals within societies or even across societies are not a new phenomenon within the globalizing world, nor indeed a unique phenomenon within Europe. However, the dynamic political, social, economical and ecological environment and the interconnectedness of each of its elements provides a compulsion towards what is known as stakeholder partnership building. This process of change is not a radical one, nor is it a revolution, or indeed limited specifically to certain spheres of our societal life; rather, it is endemic. Although in some areas stakeholder partnerships are already emerging, others are unsuspecting with regard to the value that such engagements can add to the quality of life and societies' prosperity (Nelson & Zadek, 2000).

The etymology of the word 'partner' or 'partnership' is relatively young. The word partner has its origin in English, emerging around the first half of the 19^{th} century. The word derives from the Latin term 'partionarius', which describes individuals and/or groups that are linked because they have a stake in something that they are involved with (Mackensen, 1985). Since then, the concept of partnership has developed on three levels. The oldest notion of partnerships is the relationship between individuals, like marriage and friendship. Second, there is the legal connotation of partnership as the basis for the formation of commercial organisations. Partnerships between various individuals, groups or institutions of the wider society make up the third level, which depicts the area of stakeholder partnerships. The three sectors that come together are business, government and civil society. Pluralistic societies such as Germany have a longstanding history in engaging various entities of society for problem solving and the search for consensus.

Aristotle (384-322 BC) saw in human nature individuals that are living in a community in which everyone is interconnected. In his *Politics* Aristotle called it 'zoon politicon': people living in overlapping spheres pertaining to family, community, and state. A good government of the state as well as the economy is based on a realistic recognition and integration of this underlying political principle. Aristotle considers monarchy, aristocracy and democracy as good forms of governance. However, on the basis of its centralism, monarchy and aristocracy have not typically allowed for social partnerships until the last century.

The philosophical ideas for social partnerships developed further in the 18th century around the notion of the social contract. Social contract focuses on a community or group of rational, self-interested individuals who are presumed to consent to the terms of a hypothetical agreement because it is in their rational interest to do so (Cooper & Argyris, 1998). The concept of a social contract or covenant goes back to Socrates and the Greek Sophists and even earlier. The Old Testament refers to a covenant between God and every living things which spans all generations (Genesis 9). Social contract is associated with political theory as a device for understanding the role of government within a society. The use of social contract in political theory reached its apex in the enlightenment writings of John Locke, Thomas Hobbes, and Jean-Jacques Rousseau (Donaldson & Dunfee, 1999).

In his treatise on this, Rousseau envisions a moral community in which natural freedom and equality is transferred to civil society, based on the consent of the governed and reflected in the general will of the people. More recently, Rawls (1973) uses the idea of social contract as the foundation for his influential book, *A Theory of Justice*. In 1986, Gauthier, in *Morals by Agreement*, develops a rational choice argument, namely that self-interested parties will want to participate in a social contract recognising certain principles of co-operation. Gauthier recognises the implications of his work for socio-economic life by stating that "market interactions are a network of contractual arrangements, and that this network is itself founded on an overall social contract, expressive of the two-sided instrumentality that constitutes society from the standpoint of economic man" (1986, p. 318). An integration of these principles in society would initiate the change from the pursuit of social justice to some sort of communitariarism (Etzioni, 1995).

At the end of the 18th century, England had a strong and divided class structure, France after its 1789 revolution, begun to integrate social responsibility into governance – the early beginnings of social partnerships in Europe. Germany at this time carefully observed the radical changes in its neighbourhood. The German monarchy was afraid of losing its power. Revolutions and tumults were aimed at changing the government system. Governments became less able to handle the impact of the industrial revolution and the deriving new economic conditions on society. It was at the end of the 19th century that the first stakeholder partnerships were institutionalised and the social welfare state was born. Bismarck, the (Iron) Chancellor of Prussia, is often seen as the father of this development.

After the Second World War and the end of Hitler's dictatorship, Europe was politically divided into Eastern- and Western-Block countries. Whereas in the West the free market system succeeded, communism was the ultimate objective of the East. However, the Eastern-Block countries evolved into a totalitarian system, which provided little ground for social partnerships based on individualism. Western countries, predominately Germany, France and Sweden developed the free market system into a social market system. Within this context, many of the currently existing institutionalised forms of social partnerships emerged. Unions are strong in Europe, codetermination of employee representatives on company's decision-making, citizen initiatives and movements, NGOs, professional association, European Union, lobbyists, charities and foundations are only a few general examples. 1989, the year in which the Berlin Wall came down through peaceful revolution, is another milestone on the way towards stakeholder partnerships.

However, not only was the political system in Europe in a process of radical change. The whole world changed and is still changing. Seeking to apprehend world structures is akin to catching reality in flight. Huntington (1997) called it *The Clash of Civilization*. Others discuss postmodernism, reflexive modernity or risk society. Giddens (1991) and Beck (1992) talk about the production of risk that influence society rather than traditional natural risks that can be controlled. One needs to be able to manage possible negative impacts of risks rather than merely striving for the achievement of market efficiency. Stakeholder partnership building might be a way of navigating social risk and achieving sustainability.

Nowadays, stakeholder partnership participants come together specifically to achieve social benefits through joint actions. This is accomplished in part by enabling individual partners to pursue their own interests, which may include the direct or indirect commercial interest of participating companies, as well as the interests of other partners. Partnerships seek to explore new approaches to addressing social and economic problems and opportunities, often changing and challenging traditional rules and patterns of interaction between different actors, and thereby establishing new methods of working and taking the fullest advantage of available resources and competencies.

Participants are drawn from two or more of the following: public bodies at the local, national, or international levels; private sector entities, ranging from individual companies to business associations; and civil society, ranging from local community initiatives to trade unions, academic institutions and national and international NGOs. Partnership participation is voluntary in the sense that it is based on the active decision by each partner to engage, rather than the imperative of statutory compliance. However, some partners may be pressured to join the stakeholder partnership for reasons of crisis management, conflict avoidance or peer pressure rather than an entirely self-motivated desire to participate. There is a resource contribution and associated risk or costs on the part of each partner and each partner benefits in some defined way.

Thus, stakeholder partnerships may be seen to be, in effect, a collaboration between individuals and/or organisations from some combination of public, business and civil constituencies who engage in voluntary, mutually beneficial, innovative relationships to address common social aims through combining their resources and competencies.

Establishing and sustaining mutually beneficial stakeholder partnerships is rarely simple, especially with non-traditional allies. Some of the operational challenges include bridging diversity, assessing value-added aspects, attracting and sustaining business interest and addressing power. Stakeholder partnerships also raise dilemmas with regard to more strategic issues such as learning from experience, maintaining dynamism and innovation, and the role of the state and traditional partners since partnerships raise questions of accountability and representation. Some of these operational and strategic challenges are in the centre of the analysis of stakeholder partnership building.

1.4 ANALYSING STAKEHOLDER PARTNERSHIP BUILDING

The classic Ford Pinto case, the Bhopal disaster in India and the more recent Brent Spar affair involving Shell are but three examples where stakeholders have played a leading role in firms' strategic development. Business in consensual societies (e.g., Japan and Germany) has tended to take a broad view of stakeholders – at least with regards to owners, employees and customers. In Scandinavia and the Netherlands business has been especially sensitive to environmental stewardship. In less consensual societies and more individualistic economies (e.g., America and 1980s Britain) the balance of stakeholders has tended to give primacy to owners and shareholders, with mixed results.

In 1996, two years after Jürgen Dormann became CEO of Hoechst, he announced that the company's performance would now be measured through shareholder value. In 1997, John Brown, CEO of British Petroleum (BP), underlined in a policy statement that BP, as part of society, wants to contribute to its positive development. These two firms seem to be moving from different performance orientations and stakeholder management history to a similar practice of managing social risk. In the 1990s, both companies faced critical incidents because they were detached from the society. Hoechst, having its operations in Germany, faced a series of chemical accidents and changed from a chemical to a life sciences company. BP, with its operations in Colombia faced accusations of human rights abuses and environmental damages. The company changed from a technology to a society driven company. Hoechst and British Petroleum (BP) built stakeholder partnerships that enabled the companies to manage their induced social risk, become part of society, and a sustainable company with long-term prosperity.

Stakeholder research focused primarily on stakeholder identification, salience and influence strategies to develop a stakeholder theory of the firm. Stakeholder partnerships are a phenomenon for which only little empirical evidence and theoretical constructs exist. This research seeks to amplify existing stakeholder research by presenting a longitudinal comparative processual analysis of stakeholder partnerships from Hoechst and BP that are able to provide insight into how firms build partnerships with stakeholders. In each case, two stakeholder partnerships are studied – one with NGOs and one with communities. The companies represent stakeholder partnership building within different regional and industrial context of social risk management. A qualitative case study analysis – interviews, archival data, observations, field visits and various publications – investigates stakeholder partnerships on a macro-organisational level by considering the social and individual level as well. The research focuses on (1) the purpose – the means and ends – of stakeholder partnerships, (2) the covenant between the collaborating partners, (3) the power relationship – the base and the balance – between the partners, and (4) the evolution process of the stakeholder partnerships. The research question is:

How do firms build stakeholder partnerships for the management of social risk?

- What are the defining characteristics of a firm's social risk navigation?
- What are the defining characteristics of stakeholder partnership building?
- What are the similarities and differences of stakeholder partnership building?

The descriptive, processual analysis of stakeholder partnership building is embedded in the context of social risk issues such as sustainable development, human rights, environmental damage and community development. The purpose of this study is to describe stakeholder partnerships emerging in different contexts; to analyse the process of stakeholder partnership building; and to interpret differences and similarities of stakeholder partnership building processes depending on the context of managing social risk in different industries and different parts of the world. For the interpretation of similarities and differences in stakeholder partnership building it is important to understand the context of firms' navigating social risk in terms of a set course, the connecting processes with society, and social capital as an out come of the risk management process. The proposed underlying rationale is that firms are able to manage social risk by gaining access to knowledge and building required competencies through stakeholder partnership building. The research seeks to demystify the rhetoric of stakeholder capitalism (Plender, 1998; Hutton, 1999) and figures out the perspective for firms to consider stakeholders as an environmental driving force for strategy.

Research inferences are summarised in terms of the 4-Ps of stakeholder partnership building: (1) the purpose of partnerships; (2) the pact between partners, (3) the power relationships within partnerships, and (4) the processes of the evolution of partnerships. This descriptive research defines variables of stakeholder partnership building that can be tested and applied with respect to a wider population and within different context.

1.5 How to Read this Thesis

The structure of this thesis is based on guidelines proposed by Phillips and Pugh (1994). The four parts of the thesis – theory, data, analysis and conclusion – can be depicted as follows:

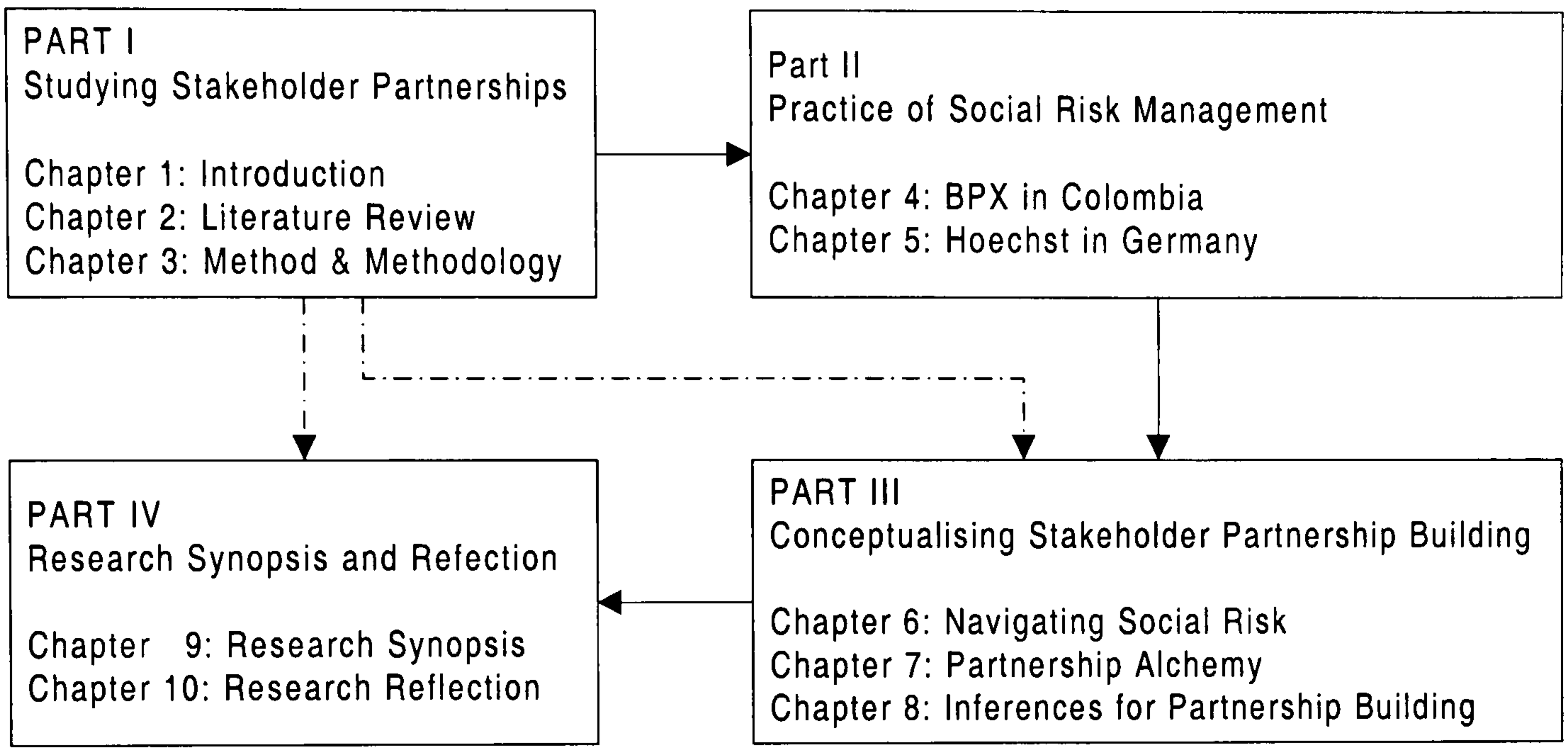


Figure 1 How to Read this Thesis

Part one comprises three chapters dealing, in turn, with the area of analysis, the underlying theory, and the applied method and methodology for studying stakeholder partnerships. Following the introduction, chapter two reviews the literature, setting out key theoretical and conceptual arguments. It evaluates research in the areas of business and society, stakeholder theory and strategic relationships. Chapter three introduces research methodological issues. It identifies the philosophical and sociological orientations of the research and develops a conceptual perspective that guides empirical analysis. It explains and justifies the research approach and design, explaining the research timetable and stages, and then deals in turn with the practical process used in the data collection methods. General methodological issues, particularly those associated with interpretation, replicability and validation, are also discussed.

The empirical data collected for this research project is described in part two of this thesis as the practice of social risk management. Chapter four focuses on BPX (British Petroleum Exploration) in Colombia and its management of social risk in a less developed country. Chapter five describes Hoechst in Germany and its management of social risk in a developed country. Both chapters follow a predominantly chronological ordering of events and actions divided into three sections: the integration or reintegration of business into society, a NGO partnership and a community partnership. At the end of each section, defining characteristics are summarised.

In order to conceptualise stakeholder partnership building, part three of this thesis analyses the inferences of the driving characteristics of stakeholder partnership building for the management of social risk. Chapter six discusses the control variables of stakeholder partnership building within the context of navigating social risk. The following chapter is the core of this conceptualisation. Chapter seven presents the partnership alchemy, the findings of the four analysed processes of stakeholder partnership building. The inferences for stakeholder partnership building are summarised in chapter eight. These findings are based on the theoretical and philosophical assumptions discussed in part one of this thesis. The discussion revolves around a consideration of four defining areas of partnership: purpose, pact, power relationships, and process of partnership evolution.

Finally, part four presents the research synopsis in chapter nine, and a reflection on research is provided in chapter ten. The research synopsis summarises the main contribution of this research and identifies the major limitations of this study. The methodological problems experienced, and the theoretical concerns related to the further development of a stakeholder theory of the firm, as well as implications for policy and practice, are discussed under the heading of research reflection. Moreover, further research directions are identified. The appendices, included in the last section of this thesis, provide the reader with a glossary of applied terms, the interview schedule and framework and a list of interviewees in each company.

Chapter 2 CONCEPTUAL FOUNDATIONS AND KEY ISSUES

If the unity of the corporate body is real, then there is reality and not simply legal fiction in the proposition that the managers of the unit are fiduciaries for it and not merely for its individual members, that they are [...] trustees for an institution with multiple constituents rather than attorneys for the stockholders.

E. Merrick Dodd, Jr. (1932)

There are three underlying theoretical areas that establish the conceptual foundations for studying stakeholder partnership building, and these are as follows: business and society, stakeholder theory and strategic relationships. The following chapter reviews the history and influential ideas of these conceptual foundations. These theoretical developments provide key issues which allow the framework applied to this stakeholder partnership research to be analysed. Because theoretical concepts have developed over time, building on and extending existing concepts rather than competing with them, the literature review presents the applied theories as a developing argument.

The theoretical area of business and society refers to the field of management study that describes, analyses, and evaluates firms' complex societal and ecological links. In particular the concepts of corporate social responsibility, corporate social performance and social capital are elaborated.

Stakeholder theory is a set of propositions that suggest that managers of firms have obligations to some groups of stakeholders. Stakeholder theory is usually juxtaposed with stockholder theory. Stakeholder thinking, perspectives of stakeholder theory and stakeholder engagement are the areas for detailed review in this chapter.

Strategic relationships are an integral part of most organisational activities in today's complex, uncertain environment. Meanwhile, collaborative strategies are the basis for stakeholder partnership building. Thus, partnerships can be described using networking processes that are conceptualised within a relational view of the firm. Within this context, partnerships may be seen as trust-based collaborations between individuals and/or social institutions with different objectives that can only be achieved jointly.

2.1 UNFOLDING BUSINESS AND SOCIETY

2.1.1 Defining Corporate Social Responsibility

In 1916, Clark provides one of the earliest considerations of firms' economic and social responsibility. Furthermore, the acceptance of social responsibility by manager is the subject of an article by Dodd in 1932. Influential references of the 1930s and 1940s include Barnard's (1938) 'The Functions of the Executive', and Kreps' (1940) 'Measurement of the Social Performance of Business'.

The publication by Bowen (1953) of his landmark book 'Social Responsibilities of the Businessman' is argued to be the beginning of a modern period of literature about corporate social responsibility (CSR). Bowen argues that 'businessmen' have an obligation "to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (1953, p. 6). As is suggested by Bowen's emphasis on the objectives and values of society, CSR rests on two fundamental premises: First, business exists at the pleasure of society, and second, the social responsibility underlying business acts as a moral agent within society. These two ideas (social contract and moral agency) have provided the basic premises for CSR.

However, Levitt (1958) argues that "welfare and society are not the corporations business. Its business is making money, not sweet music. In a free enterprise system, welfare is supported to be automatic; and where it is not, it becomes government's job" (p. 47). His objection centres on the fact that social responsibility would put business into fields not related to their 'proper aim', as Hayek (1969) stated. Friedman (1970) writes further, that the social responsibility of business is to increase its profit.

Further criticism of CSR focuses on its ambiguity. For example, Davis and Blomstrom's classical definition states that "social responsibility is the managerial obligation to take action to protect and improve both the welfare of society as a whole and the interest of organisations" (1975, p. 6). The main concepts of 'obligation', 'welfare', and 'self interest of obligations' in this definition are very broad, and open to a range of interpretations.

Moving away from economics, McGuire (1963) and other authors such as Kohlberg (1969), Davis (1973), Stone (1975), and Frederick (1987), include not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations. Davis' definition of CSR demonstrates these concerns:

> *The firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm [...] to accomplish social benefits along with the traditional economic gains which the firm seeks.* (1973, p. 313)

Manne and Wallich (1972) take this definition further, by suggesting that the behaviour of the firm must be voluntary. Jones' (1980) definition develops the notion that corporations have an obligation to constituent groups in society other than shareholders, and beyond that, prescribed by law or union contract. Two facets of this definition are critical: First, the obligation must be voluntarily adopted, and second, the obligation is a broad one, extending beyond the traditional duty to shareholders and to other societal groups.

Following this, Preston and Post (1975) and Buchholz (1977) introduce the notion of 'public responsibility', proposing that the social impact of the firm should be guided and appraised within the context of external public policy. These advocates of public responsibility focus more on the social contract side of business and less on the question of morality.

Steiner (1975) conceptualises CSR as a continuum of responsibilities, ranging from 'traditional economic production' to 'government dictated', to a 'voluntary area', and incorporating 'expectations beyond reality'. Similarly, Carroll (1979) has brought together four aspects of social responsibility; namely the economic, legal, ethical, and discretionary categories of business performance.

Ackerman and Bauer (1976) and Sethi (1979) further extend the concept of CSR. Rather than providing a focus on social responsibility, which assumes an obligation and emphasis on motivation rather than performance, their concept integrates the notion of 'social responsiveness'. The idea suggests that the way in which firms should respond to social pressures is of importance, but that their long-term role in a social system is equally so.

Tuzzolino and Armandi (1981) sought to develop a mechanism for assessing CSR by proposing a framework based on Maslow's (1954) needs hierarchy. In 1982, Dalton and

Cosier presented a model depicting a two by two matrix, with 'illegal' and 'legal' on one axis and 'irresponsible' and 'responsible' on the other. This conceptualisation of CSR addresses the major criticism of social responsibility by integrating the narrow definition of public policy into a broader definition of social policy.

Strand (1983) presents a paradigm of organisational adaptation to the social environment so as to illustrate the way in which such related concepts as social responsibility, social responsiveness, and social responses connect to an organisation-environment model. In Strand's model, public responsibility is implicit in his category of social demands and expectations placed on organisations. Strand equates these demands and expectations with legal, economic and social pressures.

Other writers such as Hay et al. (1976), and Zenisek (1979) place greater emphasis on the ethical perspective in modelling social responsibility, viewing it as the degree of 'fit' between society's expectations of the business community and the ethics of business. In 1987, Epstein provides a definition of CSR in his quest to equate social responsibility, responsiveness, and business ethics.

An example of the growing interest in putting CSR into practice and relating this to financial performance can be seen in the research of Cochran and Wood (1984). Aupperle et al. (1985) meanwhile, published another empirical study seeking to understand the relations between CSR and profitability.

However, when considering the context of a specific industry in a specific country, it is difficult to apply the general definition and concepts of CSR. It seems that the most appropriate definition of social responsibility is one which encompasses legal obligations. Authors such as Thompson et al. (1991), Warhurst (1998a) and Schwartz and Gibb (1999) have taken the standpoint that CSR should go beyond mere legal obligations and needs to be empirically explored.

As a general statement, it should be observed that there have been very few contributions to the definition of CSR in the 1990s. More than anything, the CSR concept served as a point-of departure for other related concepts and themes, many of which embraced CSR-thinking. Corporate social performance is a major theme that took centre stage in the 1990s.

2.1.2 *Modelling Corporate Social Performance*

The corporate social performance (CSP) model is regarded as an advance on the framework of CSR. The distinctive features of this are the enhanced development of the ideas of social responsibility, coupled with the integration of responsibility and responsiveness through an approach involving principle, process and policy. CSP models were developed to bring a more pragmatic orientation to the relationship between business and society.

CSP theory is, in part, a response to neo-classical economics' somewhat narrow emphasis on maximising shareholder value. Scholars envision societies as complex webs of interconnected stakeholders, multiple cause and effect, and they see business as a social institution with both power and responsibility. Although CSP is often thought of as having a normative content, this is not a prerequisite, but rather, establishes an intellectual framework for grasping the structure of relationships between business and society. It is a theory of how corporations are held accountable to the societies in which they operate.

The three-dimensional model introduced by Carroll (1979) was the initial concept of CSP, intended to clarify, as well as to integrate various strands of definition that have appeared in literature. The model is an attempt to integrate three aspects: a definition of social responsibility, an identification of social issues or topical areas to which these responsibilities are tied, and a consideration of the philosophy, mode, or strategy behind business response to social responsibility and social issues. A criticism of Carroll's model is that it fails to capture the process of analysis, debate, and modification that characterises scholarly inquiry (Wartick & Cochran, 1985). However, two main contributions to the theoretical development of social responsibility are taken from Carroll's model. This was the first to consider those multi-faceted aspects of the definition of CSR and was concerned to identify social issues in which business is involved.

Wartick and Cochran (1985) further extend Carroll's model by proposing three dimensions which may be thought of as depicting principles of CSR, processes of corporate social responsiveness, and policies regarding social issue management. These extensions are useful in that they help to appreciate more effectively those complementary aspects neglected in Carroll's model.

Wood (1991a/b) has elaborated and reformulated Carroll's model and Wartick and Cochran's extensions. She considers social responsiveness as a set of, rather than a single process, and to think of Wartick and Cochran's policies as entailing observable outcomes of corporate and managerial actions. Wood has taken this definition further by proposing that each of the three components – principles, processes, and outcomes – are composed of specific elements.

Swanson's model refers to "a remaining problem in the field of corporate social performance" (1995, p. 43); its economic and duty-aligned perspectives are not integrated. Her model provides a research framework that can be applied to explore this integration. To that end, Swanson's model reorients that of Wood's by recasting decision making in terms of ethical and value-based processes that are able to link the individual, the organisation, and society. Therefore, Swanson's model discards the assumption that the CSR principles are hierarchical. With this reorientation in mind, she suggests a theoretical picture that provides an interactive approach able to link principles, processes, and outcomes.

Gnyawali (1996) considers CSP more from an international perspective. Her model suggests that in today's global environment CSP is shaped by a combination of firm specific, country specific and global factors. While some of these appear to be more common across countries, others are country specific. Also, each firm's unique characteristics shape the response of that firm to given social issues. Thus, to understand the CSP of a firm, one needs to examine factors that shape CSP in the country in which the firm operates, global factors that shape CSP in every country, and firm-specific factors that shape the CSP.

The aim of the intellectual field of business and society is to find and develop a constructive business relationship with society. This search is inherently normative, because it seeks to explain what corporations should or should not do on behalf of the social good (Wood, 1991b; Buchholz et al., 1994; Frederick, 1998a/b). Such an endeavour necessarily involves factual accounts of corporate activity. To date, normative and descriptive approaches have not been satisfactorily blended into one theoretical perspective (Swanson, 1999). Many prominent scholars hold that until integration is forged between normative and descriptive approaches, a coherent theory of business and society will be kept at bay (cf. Frederick, 1994; Donaldson & Dunfee, 1994; Quinn & Jones, 1995; Dean, 1998; Jones & Wicks, 1999).

Jones (1996) criticises the fact that although CSP models are rich in detail and thorough in coverage in its current version, they offer no formal, empirically tested theory. Previous research attempts to link corporate social and financial performance. As Ullmann (1985) and Pava and Krausz (1995) point out, attempts to measure this relationship are always hampered by measurement problems. The measurement of social responsibility is fraught with problems of definition. Even if a definition of social responsibility could be agreed upon, there still remains the complex task of putting such a definition into practice. Over the years, studies of the correlation between CSP and financial performance have produced varying results. Whereas some studies conclude that a relationship does exist, those that appear to be most methodologically sound fail to reach such a conclusion (cf. Cochran & Wood 1984; Aupperle, et al., 1985; McGuire, Sundgren & Schneeweis, 1988; Barton, Hill & Sundaram, 1989; Preston & Sapienza, 1990; Griffin & Mahon, 1997; Weaver, Trevino & Cochran 1999).

Clarkson argues that the difficulties encountered in defining CSP can be attributed, in part, to the broad and inclusive meaning of the word social. "The connotation of social is society, a level of analysis that is both more inclusive, more ambiguous, and further up the ladder of abstraction than a corporation itself" (1995, p. 102). Current research focuses on linking CSP to theories of stakeholders, ethics, and organisations; systematising the assumptions and theoretical implications of the CSP model; empirically testing ideas on how people perceive, interpret, and enact CSP; examining the validity of the CSP model in cross-cultural and multinational settings; and critiques of existing CSP theory.

In the late 1990s, corporate citizenship began to replace CSP (e.g., Carroll, 1998; Andriof, 1998; Goyder, 1998; Miller, 1998). Companies, as independent legal entities, are members of countries and can be thought of as corporate citizens with legal rights and duties. All companies, therefore, are corporate citizens but their citizenship performance varies just as it does for any individual citizen. As Drucker (1993) argues, citizenship is a political, rather a political term. Positive corporate citizenship, therefore, can be defined as understanding and managing a company's wider influences on society for the benefit of the company and society as a whole (Marsden & Andriof, 1998). Corporate citizenship is closely associated with the idea of reputation management, sustainable development, and managing risk (Fombrun, 1996; McIntosh et al., 1998; Warhurst, 1998b; Robertson, 1999).

Andriof and Marsden (1999) argue that firms have a ripple effect on society, like a stone being thrown into a pond. Firms have an economic, environmental and social impact. Elkington (1997) earlier referred to this phenomenon as a 'triple bottom line'.

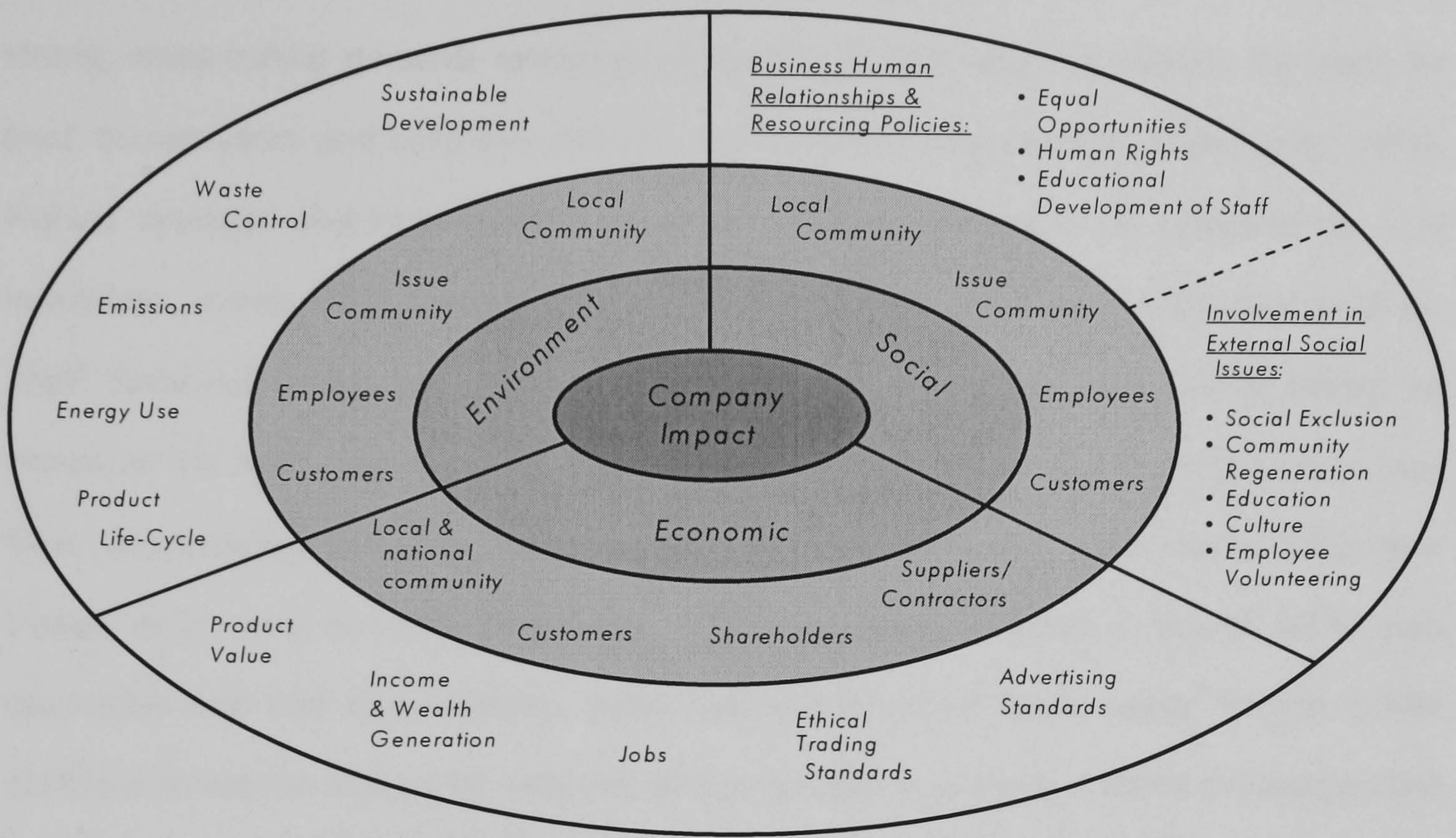


Figure 2 A Company's Ripple Effect

Within the context of corporate citizenship, international business conduct is known to be influenced by regulations, guidelines, standards and codes of conduct that have emerged to lend a regulatory framework to the scope and relationships of international business organisations, governments, and communities at a global, regional and local level. The need for uniform guidelines for transnational companies (TNC) conduct has been emphasised by several authors (cf. Rugman et al., 1985; Stuvidant & Vernon-Wortzel, 1990; Post, 1999).

A recent NGO initiative that aims directly at monitoring TNC performance on social responsibility issues is the Council on Economic Priorities Accreditation Agency (CEPAA), established in 1997 by the Council on Economic Priorities (CEP). An advisory board that included various stakeholders developed a social accountability standard (SA 8000). The Institute for Social and Ethical AccountAbility (ISEA) designed a systematic concept for a firms' social and ethical accountability (AA1000). Emerging themes within theory and practice of corporate citizenship are governance, accountability and partnerships (Zadek et al., 1997; Pruzan, 1998; Johnson & Greening, 1999). One of the strongest arguments for firms to invest in corporate citizenship is the growing importance of social capital.

2.1.3 Building Social Capital

Initially, the term social capital appeared in community studies, highlighting the central importance – for the survival and functioning of city neighbourhoods – of the networks of strong, cross-cutting personal relationships developed over time that provide the basis for trust, co-operation, and collective action in such communities (Jacobs, 1965; Loury, 1977). Recent research describes social capital as an asset embedded in relationships – of individuals, communities, networks, or societies (Coleman, 1990; Burt, 1997; Walker et al., 1997; Nahapiet & Ghoshal, 1998). Unlike other kinds of capital, social capital cannot be traded on the open market; rather, it can change as relationships and rewards change over time, disappearing when the relations cease to exist. Generally, social capital also been treated as a moral resource (Hirschman, 1984), the supply of which increases rather than decreases with use. Nevertheless, some reservations about social capital remain. Locke (1999) criticises the authors for believing that knowledge is primarily a social product pointing out, for instance, a loss of objectivity and a weak established causality between social capital and other forms of capital.

Researchers differ as to the level of analysis used in describing social capital; this concept has been described as an attribute of nations or geographic regions (Fukuyama, 1995), communities and societies (Putnam, 1993, 1995), individual workers (Burt, 1992a), firms in their interactions with other firms (Baker, 1990), and individual actors (Portes & Sensenbrenner, 1993; Belliveau et al., 1996). Social capital thus crosses several levels of analysis and has been described using both a macro and a micro lens.

Researchers also vary with regard to the normative aspect of social capital implicit in their theories. Social network researchers, for example, assume Granovetter's (1973, 1985) position that individuals best develop social capital by pursuing numerous strategically positioned 'weak ties' with others. Burt (1992b, 1997) describes social capital in terms of 'brokerage opportunities' within a social system, whereby individuals who are able to bridge gaps between otherwise disconnected others (i.e. fill 'structural holes') enhance their stores of social capital. Conversely, writers like Fukuyama (1995) argue implicitly for the value of 'strong ties' among individuals within cohesive and bounded social networks or communities.

Coleman (1990) also notes the importance of a closed system in maintaining social capital. Thus, different approaches to social capital alternatively stress density, redundancy, or efficiency in social interactions and, in this regard, vary in terms of their implicit normative recommendations for building social capital.

The central premise in social capital theory is that networks of relationships constitute a valuable resource for the conduct of social affairs, providing their members with the "collectivity-owned capital, a 'credential' which entitles them to credit, in the various senses of the world" (Bourdieu, 1986, p. 249). Resources are made available through contacts or connections that networks bring. For example, through 'weak ties' (Granovetter, 1973) and 'friends of friends' (Boissevain, 1974), network members can gain privileged access to information and to opportunities. Significant social capital, in the form of social status, can be derived from membership of specific networks (Bourdieu, 1986; Burt, 1992b; D'Aveni & Kesner, 1993).

Although these authors agree on the significance of relationships as a resource for social action, they lack consensus with regard to a precise definition of social capital. This research applies Nahapiet and Ghoshal's view that defines "social capital as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit" (1998, p. 243). In their article, Nahapiet and Ghoshal (1998) present a theoretical model of how social capital may facilitate value creation by firms. Building on Moran and Ghoshal's (1996) formulation of value creation as arising from the combination and exchange of resources, Nahapiet and Ghoshal identify three dimensions of social capital – structural, relational, and cognitive – and seek to justify theoretically how attributes of each of these dimensions facilitate the combination and exchange of resources within firms.

Although social capital takes many forms, each of these has two characteristics in common: They constitute some aspects of the social structure, whilst facilitating the actions of individuals or social units within the structure (Coleman, 1990). In addition, for firms' management of social risk, social capital might be an invaluable resource. Hence, it is important to build the right form of social capital – access information and opportunities or social status.

2.2 DEVELOPING A STAKEHOLDER THEORY OF THE FIRM

2.2.1 Considering Stakeholder Thinking

Stakeholder thinking is a way to see companies and their activities through constituency concepts and propositions. The idea is that 'holders' who have 'stakes' interact with the firm and thus make its operation possible (Blair, 1998). However, the basic ideas behind this thinking are not new, even though the explicit formulation of the theory is in its relative infancy. It is possible to trace the main impulses back to Barnard (1938), March and Simon (1958), Cyert and March (1963), Thompson (1967) and Pfeffer and Salancik (1978). Freeman (1984) considers that the first definition of the stakeholder concept can be found in an internal memorandum of the Stanford Research Institute from 1963.

Since this time, stakeholder thinking has become a consistent dimension in organisational life, and is therefore difficult to discount in any organisational model. It was not until Freeman (1984) integrated stakeholder concepts into a coherent construct, however, that stakeholder thinking moved to the forefront of academic attention. A number of scholars have developed and enhanced Freeman's work. Carroll (1989) was one of the firsts to use the stakeholder approach explicitly as a framework for organising business and society topics. Brenner and Cochran (1991) and Hill and Jones (1992) meanwhile, offered stakeholder models as alternative approaches to Wood's (1991a) CSP framework. In Kay's (1996) formulation, strategy describes how companies respond to suppliers, customers, competitors, and the wider society within which they operate. According to Kay, strategy involves values and expectations of those who can influence the company and its performance – the stakeholder.

Their efforts have led other researchers to realise that stakeholder thinking could potentially "explain and guide the structure and operations of the established corporation" (Donaldson & Preston, 1995, p. 70). Several authors (Brenner & Cochran, 1991; Hill & Jones, 1992; Donaldson & Preston, 1995; Jones, 1995) have treated stakeholder thinking as the foundation for a theory of the firm and as a framework for the business and society field. Thus, stakeholder thinking has matured from servant logic supporting the advancement of other theories to a theory of the firm in its own right. Whether a stakeholder theory currently exists is a matter of debate (Harrison & Freeman, 1999). Nevertheless, efforts to create testable stakeholder theory (Jones, 1995; Mitchell et al., 1997; Berman et al., 1999), as well as Brenner and Cochran's (1991) and Sachs et al. (1999) work, are evidence of a movement towards theory explaining how organisations function.

Stakeholder theory development has centred around two related streams: (1) defining the stakeholder concept and (2) classifying stakeholders into categories that provide an understanding of individual stakeholder relationships. One of the primary challenges in stakeholder analysis has been the construction of a universally accepted definition of the term 'stake' (Donaldson, 1995). Starik (1994) notes that although there has been an abundance of articles and books using stakeholder thinking, the meaning of the term stakeholder has not been consistently applied. Freeman's definition of stakeholder, "any group or individual who can affect or who is affected by the achievement of the firm's objectives" (1984, p. 25), continuous to provide the boundaries of what constitutes a stake.

Although debate continues over whether to broaden or narrow the definition, most researchers have utilised a variation of Freeman's concept. For example Hill and Jones define stakeholders as "constituents who have a legitimate claim on the firm" (1992, p. 133). Carroll (1993) also argues those groups or individuals can be stakeholders by virtue of their legitimacy, but he broadens the scope of the definition to include those who have power – the ability to impact the organisation. Clarkson (1995) suggests an alternative approach for identifying and evaluating stakeholder claims which casts stakeholders more narrowly as risk-bearers. He argues that a stakeholder has some form of capital, either financial or human, at risk and, therefore, has something to lose or gain depending on firm's behaviour.

Regardless of how Freeman's (1984) definition is modified, there is a core idea which underlies stakeholder thinking. Whatever the definition within the stakeholder perspective, organisations are required to address a set of stakeholder expectations; thus, management choice is a function of stakeholder influences (Brenner & Cochran, 1991). Consequently, the main objectives in stakeholder research have been to identify who a firm's stakeholders are and to determine what types of influences they exert (McGee, 1998).

A stakeholder theory of the firm, however, requires not only an understanding of the types of stakeholder influences but also how firms respond to those influences. Although focusing on individual stakeholder relationships is appropriate for classifying types of stakeholders, this analysis cannot be extended to describe a firms' behaviours, because each firm faces a different set of stakeholders, which aggregate into unique patterns of influence. Ambler and Wilson (1995) demonstrate that firms do not simply respond to each stakeholder individually; they respond, rather, to the interaction of multiple influences from the entire stakeholder set. Thus, explanations of how organisations respond to their stakeholders require an analysis of the complex array of multiple, interdependent relationships existing within the stakeholder environment.

Extant research has concentrated on producing classification schemes for categorising stakeholders according to the type of influences they exert on organisations. Several schemes exist, including Carroll's (1989) environmental sorting and primary and secondary classification; Freeman's (1984) internal and external change distinction; and the Scandinavian contribution, which focuses on types of transactions (Näsi, 1995). Yet, no matter how popular stakeholder analysis has become, and how richly descriptive it is, there is no agreement as to what Freeman (1994) calls *The Principle of Who or What Really Counts*. In 1997, Mitchell et al. developed a theory of stakeholder identification and salience – incorporating normative and descriptive theory elements – focussing on three core variables: power, legitimacy and urgency. Berman et al. (1999) partly tested the stakeholder identification and salience theory. The results provide support for a strategic stakeholder management model, but no support for an intrinsic stakeholder commitment model.

Building stakeholder partnerships is an attempt to describe the behaviour of organisations within its environment. Referring to the theoretical rationales for stakeholder theory, there is a dichotomy within the explanation of organisations' behaviour in its environment. Whereas some consider the key to organisational survival to be within the incorporation of institutional pressure, others consider it within organisations' ability to acquire and maintain resources.

The conceptual competition within stakeholder theory, between legitimacy and power that reflect in virtually every major theory of the firm – particularly in agency, behavioural, institutional, population ecology, resource dependence, and transaction cost theories (Argenti & Campbell, 1997). Resource dependence theory suggests that power accrues to those who control resources needed by the organisation, thereby creating power differentials among parties (Pfeffer, 1981, 1997), and it confirms that the possession of resource power makes a stakeholder important to a firm. Legitimacy is achieved if patterns of organisational practice are in congruence with the wider social system (Scott, 1987; Powell & DiMaggio, 1991). Institutional theory describes this adaptation. Strategy processes deriving from resource dependence are primarily proactive, whereas institutionalised processes are reactive (Mintzberg et al., 1998; Mintzberg & Lampel, 1999). The following chart classifies research themes in terms of the two underlying rationales of stakeholder thinking.

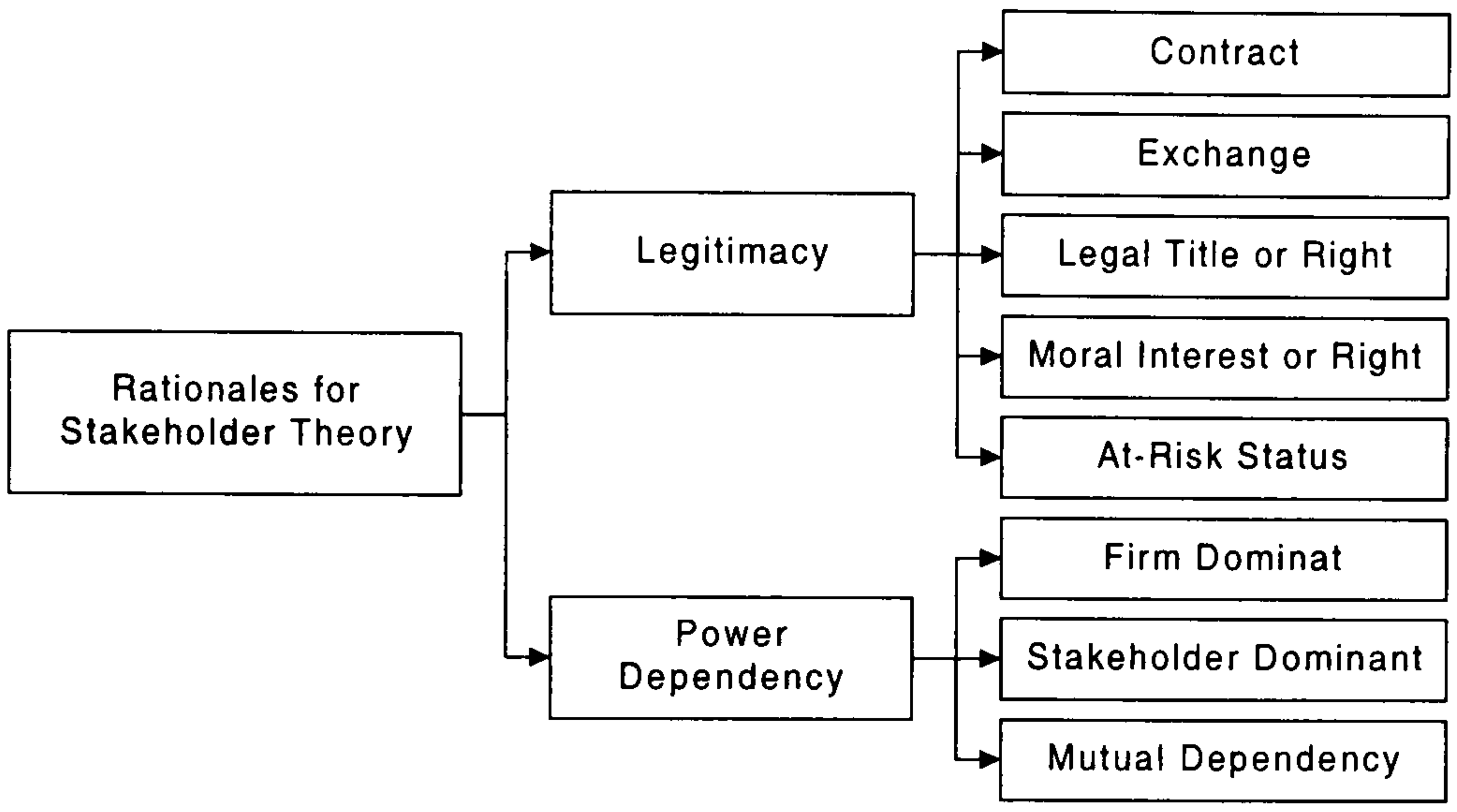


Figure 3 Rationales for Stakeholder Theory

Corporate social responsibility, and the maintenance of sound organisational ethics, may not invariably depend wholly on the strategic behaviour induced by the anticipation of organisational gain. Organisations may act ethically or responsibly not only because of any direct link to a positive organisational outcome (e.g., greater prestige or more resources) but merely because it would be unthinkable to do otherwise. In this way, organisational behaviour may be driven not by processes of interest mobilisation (DiMaggio, 1988), but by preconscious acceptance of institutionalised values or practices.

Within the resource dependence perspective, theory assumes that organisations may be interest-driven and that organisations exercise some degree of control or influence over the resource environment or the organisation's exchange partners for the purposes of achieving stability. Theorists argue that organisational stability is achieved through the exercise of power, control, or the negotiation of interdependencies for purposes of achieving a predictable or stable inflow of vital resources and reducing environmental uncertainty.

2.2.2 *Distinguishing Stakeholder Theory Dimensions*

Stakeholder theory, as currently seen, is of at least four types. These subdivisious theories are often intertwined in the literature and are rarely stated formally. Donaldson and Preston (1995) distinguish the theoretical dimensions implicit in stakeholder theory. Their three-part typology – descriptive/empirical, instrumental, and normative – makes explicit what was merely implicit in early formulations of stakeholder theory. These early formulations simultaneously suggested that: (1) firms and/or managers actually behave in certain ways (descriptive/empirical); (2) certain outcomes are more likely if firms/managers behave in certain ways (instrumental); and (3) firms/managers should behave in certain ways (normative). Donaldson and Preston also point out that none of the theoretical formulations of stakeholder theory is formally stated or fully developed.

Freeman (1995) notes that the last fifteen years can be characterised as a search for a full-blown theory of stakeholders able to replace the dominant theory in business schools, namely the stockholder theory. However, he believes "that there is no one stakeholder theory of the firm" (1995, p. 35). Recognising and valuing Donaldson and Preston's perspectives on stakeholder theory, Freeman (1995) suggests a fourth use of stakeholder thinking – metaphorical. In this context stakeholder theory is a story rather than a theoretical construct. Freeman considers that the "task is to take metaphors like stakeholder thinking and embed it in a story about how human beings create and exchange value" (1995, p. 45).

Donaldson and Preston conclude that the most promising area for the development of theory in stakeholder theory is in the normative realm. Indeed, they offer a normative justification for stakeholder theory based on property rights. Other normative justifications include social contract approaches, Katian capitalism, agent morality, and the normative arguments for CSR. Each of these normative positions is legitimate because each is falsifiable, presumably through logic, counter argument, and/or appeal to higher normative principle.

Instrumental stakeholder theory is also possible. Firms run by their top managers and embedded in markets which provide some discipline for inefficiency have relationships – called contracts – with many stakeholders (Jones, 1994). Among the many mechanisms available for reducing contracting costs is the voluntary adoption of behavioural standards, which reduce or eliminate opportunism – that is, certain ethical norms. While systematic benefits are easy to identify, individual benefits are less so. Frank (1988) has argued that honest, trustworthy, and co-operative people help solve the problem of opportunism and, hence, are desirable partners in contracting relationships. The key to competitive advantage for firms is, therefore, mutually trusting and co-operative contracts with their stakeholders. Empirical propositions can then be derived from this general statement of the theory. It could be shown, for example, that firms that contract with their stakeholders on the basis of these behavioural traits do not, in fact, realise competitive advantage (Atkinson et al., 1997).

In the realm of descriptive/empirical stakeholder theory, several possibilities exist. One such statement could be phrased thus: 'Managers behave as if several stakeholder groups, not just shareholder, affect firm performance'. Again, this is an empirically falsifiable claim; that is, evidence could be accumulated to show that managers do not, in fact, behave as if stakeholders mattered in terms of the success of the firm. A semantically similar, but substantively distinct, descriptive statement could read: 'Managers behave as if stakeholder mattered because of the intrinsic justice of stakeholders' claims on the firm'.

Empirically, Clarkson (1995) has accumulated evidence that does not contradict either of these claims. Berman et al. (1999) provide support for a strategic stakeholder management model, but place little emphasis on an intrinsic stakeholder commitment model. Brenner and Cochran (1991) make a theoretically more aggressive but empirically less traceable claim:

> *The stakeholder theory of the firm posits that the nature of organization's stakeholders, their values, their relative influence on decisions and* the nature of the situation are all relevant information for predicting organizational behavior. (p. 57)

Although Brenner and Cochran argue that "values which are highly weighted should be favoured in actual choice situations" (1991, p. 44), they stop short of substantive prediction or description of the mechanism(s) through which the predicted behaviour might occur.

Despite these efforts, no descriptive theory of the firm has emerged which might imitate, or perhaps replace, the theories of neo-classical and managerial economics. A descriptive theory of the firm may not be forthcoming unless some member of the community of business and society scholars is willing to make some heroic assumption(s) about human behaviour (cf. Freeman & Liedtka, 1997; Hutton, 1997; Gioia, 1999). The success of economic theory is premised on the behavioural assumptions of rational self-interest, which Etzioni (1988) and others have thoroughly demolished. Unfortunately, even though these same scholars have also documented a wide variety of human behaviour – some self-interested, some altruistic, some rational, some irrational – their models still leave enormous amounts variation unexplained.

		Rationale	Unit of Analysis	Level of Analysis	Underlying Theory	Advocates
Narrative Approach	Metaphorical	Stakeholder is a 'Story' in a Broader Narative Corporate Live	Participants of Organisational Processes	Macro Organisational or Market Perspective as a System	Strategic Management Business Policy	Mitroff, 1983; Freeman, 1995; Litz, 1996
	Normative	Corporate Social Responsibility via Fiduciary Principle and Principle of Corporate Legitimacy	Modern Property Rights	System-Centred Principles	Utilitariaism Libertarianism Social Contract Theory	Donaldson & Preston, 1995; Donaldson & Dunfee, 1999
			Agent Morality	Organisation-Centred Principles	Principal Agency Theory	Wood & Jones, 1995; Yuthas & Dillard, 1999
			Social Contracts (welfare and justice)	System-Centred Principles	Social Contract Theory	Rawls, 1973; Rousseau, 1993; Child & Marcoux, 1999
			Kantian Capitalism	System-Centred Principles	Ethical Theory (categorical imperative)	Freeman & Ewan, 1990; Wright & Ferris, 1997
Analytical Approach	Instrumental	Effect of Stakeholder Consideration on Firm's Bottom Line	Efficient Relationships/Transactions/Relational Contracts	Competitive Behaviour	Social Network Theory Positive Agency Theory Transaction Cost Theory	Frank, 1988; Preston et al., 1991; Hill & Jones, 1992; Jones, 1994, 1995
	Descriptive	Organisational and Managerial Behaviour for Stakeholder Consideration	Extrinsic Performance Orientation and Intrinsic Justice/Value Orientation	Managerial Behaviour	Managerial Economics and Organisational Phsycology/Socilogy	Clarkson, 1995; Etzioni, 1988; Agle et al., 1999
			Nature of Stakeholders and their Values and their Influence on Decisions and Nature of the Situation	Organisational Behaviour	Organisation Theory/Decision Theory	Brenner & Cochran, 1991; Logsdon & Yuthas, 1997; Berman et al., 1999

Table 2 Stakeholder Theory Dimensions

In 1999, Jones and Wicks developed a 'convergent stakeholder theory'. A convergent stakeholder theory incorporates elements of the social science approach and the normative ethics approach (Jones & Wicks, 1999). This theoretical view of organisations helps to explain why managers can develop morally sound approaches to business and then ensure that they work (Donaldson, 1999, Marens & Wicks, 1999). However, Trevino and Weaver (1999) question Jones and Wicks' (1999) assertion that their convergent approach can be used to integrate divergences in stakeholder theory. They argue that Jones and Wicks have failed to prove the existence of any plausible empirical stakeholder theory that can be integrated with normative theory. Furthermore, Jones and Wicks' attempt to create a convergent theory has done little to advance stakeholder research beyond its current limitations (Beaver, 1999). Freeman (1999) views the new approach to stakeholder theory as divergent, rather than convergent, claiming that ethics and instrumental theory cannot be linked. More empirical research is needed to establish a stakeholder theory of the firm.

2.2.3 *Engaging with Stakeholders*

Stakeholder groups can be assessed against strategic aims according to three sets of criteria – influence, impact and alignment. Each of these is measurable, to a greater or lesser degree. Clearly, the higher the potential for business fortunes and the higher the business impact on stakeholder groups, the more important it is to maintain a constructive dialogue. The easier the dialogue becomes, the greater the alignment of values between the company and the stakeholder group (Scholes & Clutterbuck, 1998). However, managing stakeholder audiences as if they were discrete and unconnected is no longer a viable strategy. Companies need to develop systems and approaches that enable them to prioritise stakeholders, align closely to them, integrate the messages to and from them and build bridges between them rather than buffer impacts.

Stakeholder research has concentrated primarily on classifying individual stakeholder relationships and influential strategies. The first such analysis was probably Vogel's (1978) work, focusing as it did on such strategies as proxy resolutions and boycotts. In recent years, stockholder resolutions (Davis & Thompson, 1994), boycotts (Paul & Lydenberg, 1992), and modified vendettas (Shipp, 1987; Corlett, 1989) have all been subject to theoretical treatment. Researchers have performed empirical studies on many of these same stakeholder influence strategies. In these empirical studies scholars have generally considered the effectiveness of the strategies, or the market's reaction to such strategies, and have included examinations of boycotts (Garrett, 1987; Pruitt et al., 1988), divestitures (Davidson et al., 1995), and letter-writing campaigns (Smith & Cooper-Martin, 1997).

Frooman (1999) goes beyond particular influence strategies. His stakeholder influence theory suggests the existence of four types of stakeholder influence, and four types of resource relationships. It argues, further, that the balance of power implicit in the relationship determines which of the types of strategy a stakeholder will use. However, this approach cannot explain how a firm reacts to its stakeholders.

Each firm faces a different set of stakeholders which aggregate into unique patterns of influence. Thus, firms do not respond to each stakeholder individually, but rather, must answer the simultaneous demands of multiple stakeholders. Rowley (1997) contributes to stakeholder research by providing a mechanism for describing this simultaneous influence on multiple stakeholders and for predicting firms' responses. He placed four responses of firms within a two by two matrix – density of the stakeholder network by centrality of the focal organisation. The bedrock of this work is Oliver's (1991) effort to converge institutional and resource dependence theory.

However, recent developments have weakened conventional boundaries between internal and external stakeholders as they relate to management principles and systems. As a consequence, stakeholders require more, and different, management attention than they traditionally received. These ideas lay a foundation for understanding why more and more organisations are embracing a stakeholder management approach.

The instrumental perspective is that stakeholder management activities can lead to other outcomes, which in turn can then lead to higher profitability or increased firm value. Examples of instrumental outcomes include improved predictability of changes in the external environment resulting from better communication with external stakeholders (which may also lead to greater control), higher percentages of successful innovations resulting from the involvement of stakeholders in product/service design teams, and fewer incidents of damaging moves by stakeholders (e.g., strikes, boycotts, bad press) due to improved relationships and greater trust (Svendsen, 1998; Moss Kanter, 1999).

Stakeholders provide a lens for viewing and interpreting important trends in the operating environment. Therefore, "proactive stakeholder engagement is simply the right thing to do" (Harrison & St. John, 1996, p. 49). One of the key factors that determine the priority of a particular stakeholder is its influence on the uncertainty facing the firm. For example, political power influences environmental uncertainty. In addition, it is important to understand the role of strategic choice in determining the nature of the interdependency that exists between a stakeholder and a firm. Strategic decisions at all levels influence the importance of various stakeholders.

When environments are more complex and uncertain, webs of interdependencies are created among stakeholders. In these environments, bridging (also called boundary spanning) techniques are needed that build on interdependencies rather than buffering them

(Harrison & St. John, 1996). As Pfeffer and Salancik argue, "The typical solution to problems of interdependence and uncertainty involves increasing the mutual control over each other's activities" (1978, p. 43). Joint ventures with competitors, co-operative product development efforts involving suppliers and customers and industry-level lobbying efforts are examples of partnering techniques that bring the firm into closer alliance with its critical stakeholders. Research suggests that strategic alliances are a device for reducing both the uncertainties that arise from unpredictable demand and the pressures that come from high levels of interdependencies among organisations (Burgers et al., 1993).

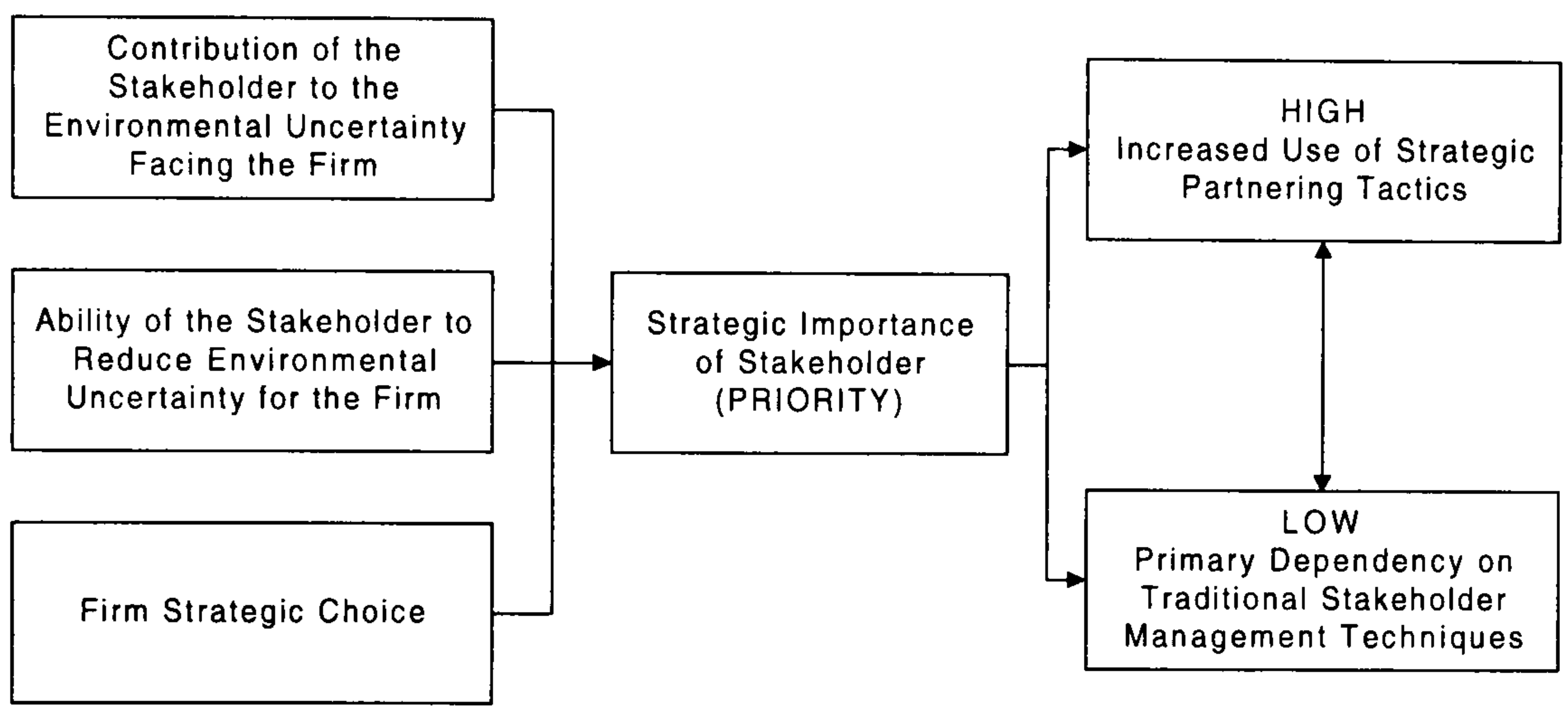


Figure 4 Strategic Importance of Stakeholders (Harrison & St. John, 1996)

Harrison and St. John (1996) postulate that firms should consider proactive partnering techniques, not only to increase control in the face of environmental uncertainty, but to create organisational flexibility. Partnering activities allow firms to build bridges with their stakeholders in the pursuit of common goals, whereas traditional stakeholder management techniques (buffering) simply facilitate the satisfaction of stakeholder needs and/or demands.

The potential benefits of bridges between partners may be illustrated using relationships with customers as an example. Firms with a traditional buffering posture towards customers focus on arms-length information-gathering about new products needs and expected demand and compliance with current quality and service expectations, all in an effort to buffer the firm from uncertainty and customer complaints. With bridging techniques, a firm might choose to create stronger linkages with customers by involving them directly in the firm's product development programmes, continuous improvement programmes, and production planning and scheduling. Bridging builds on interdependency rather than buffering it. However, empirical research is needed to describe the process of building stakeholder partnerships.

2.3 Reviewing Strategic Relationships

2.3.1 Appreciating Collective Strategies

For much of its history, business policy has characterised the organisational environments as an exogenous entity, or a set of external constraints delimiting what is possible in terms of strategic action. Managers must navigate within and around these constraints as lone pioneers negotiate an intractable terrain. Thus, strategic management is seen as an entrepreneurial adventure in which firms must circumvent 'threats' and exploit 'opportunities' (Andrews, 1971). Organisations are basically viewed, as solitary units confronted by faceless environments. This may be characterised by business policy's pioneering ethos.

More recently, organisational environments have been viewed as neither faceless nor intractable, but as constituted by specific interest groups or stakeholders with whom organisations may strike favourable bargains and thereby shape the basic nature of their operating domains (Ansoff, 1965; Freeman, 1984; Ocasio, 1997). Astute manipulations of stakeholder resource dependency can afford organisations a degree of autonomy to exercise strategic choice in the forging of a 'negotiated environment' (Cyert & March, 1963). Despite this mutual interdependence with others, however, organisations are still viewed as pitched against their environments in the sense that they act on their own behalf, pursuing localised interests rather than furthering the joint goal of the organisational collectives in which they are immersed. In business policy, analysis typically proceeds only from the point of view of the focal organisation. Strategic choice is predicted on the independent actions and self-interested motivations of the focal units concerned. This may be characterised as business policy's 'egocentric organisation' (Astley & Fombrun, 1983).

Some of this narrowness of focus on single units has been overcome with the importation of ideas from the field of industrial organisation and its emphasis on aggregates of organisations in whole industries. Again, this development has simply reinforced the notion that fundamentally alien environments confront organisations. The managerial task is viewed as one of devising a 'competitive strategy' for bettering rivals (Porter, 1980). Business policy's debt to military science (Evered, 1983) becomes evident here: policy making approximates to a cut-throat game of 'warfare' (Porter, 1980) in which an astute choice of 'competitive weapons' (Uyterhoeven et al., 1973), 'strategic moves' (Hofer & Schendel, 1978), and 'counterpunch plans' (MacMillan, 1982) sorts out the 'winners' from the 'losers' (Allen & Hammond, 1975). In other words, inter-organisational relationships are seen as ultimately competitive and antagonistic. This may be characterised as business policy's 'battlefield analogy' (Astley & Fombrun, 1983).

Each of these characterisations is grounded in a particular conception of the nature of organisation-environment relationships. The pioneering ethos implies that the critical variable in organisation-environment relations is 'constraint', in that organisations are forced to adapt to sets of exogenous and rather intractable contingencies (Astley, 1984). The egocentric orientation implies that the critical variable in organisation-environment relations is 'choice', in that strategic, self-serving action assumes a degree of autonomy on the part of organisations to select beneficial courses of action and to manoeuvre independently on their own behalf. The battlefield analogy implies that the critical variable in organisation-environment relations is 'competition'. Thus, organisations must constantly strive to do better than their rivals in order to survive. Constraint, choice, and competition have been seen, respectively, as the central foci in the history of the field of strategic management.

Astley (1984) proposes, however, that the field has neglected one particular variable in organisation-environment relations. This is 'collaboration' or joint action by organisations on matters of strategic importance. Astley argues that collaboration should join constraint, choice, and competition as being of central interest to strategic management theorists. It is to this end that scholars call for an appreciation of the role of collaboration as an integral part of what is termed 'collective strategy' (Bresser, 1988).

Business policy should have behind its pioneering ethos a sentiment. This view is grounded in the conception of the environment as an exogenous constraint. It must recognise that organisational environments are primarily socially constructed environments that emerge from the milieu of interactions taking place among the collectivities of organisations pervading modern society. In this view, threats and opportunities are not so much found as created. Resources are not simply fortuitously discovered and exploited, but produced. The source of this creativity and production lies in collective organisational actions. Strategic networks increasingly influence contemporary environments.

2.3.2 Towards Strategic Networking

The broad, context-sensitive concept of strategic management emerging in modern strategy research are based on recognition that firms must be regarded as open systems, dependent on their environment for survival and goal achievement. In most businesses, the environment has changed from low competition and low complexity towards more turbulent, complex and demanding operating conditions (Drucker, 1980; Ansoff, 1984; Peters, 1987). Increased interdependency makes it necessary to focus on a firm's strategic relations to a larger set of actors – stakeholders – in the task environment, and to increase awareness of relevant contextual aspects behind the market scene. Accordingly, the stakeholder perspective on strategy research highlights a major challenge to strategic management stemming from changed market conditions. This challenge incorporates ecological concerns, global aspects, CSR, and long-term commitment and co-operations among various market participants.

However, an area of complication within strategic network theory development is the lack of empirical grounding of new, more complex models. Several authors claim that strategy research is facing a serious identity crisis (McGee & Thomas, 1986; Zan, 1990). The field is seen to lack critical assessment of the theoretical issues of the discipline. Nevertheless, strategic network theory can contribute to new principles of management by (1) including whole systems of organisations, the macro environment as well as the micro level of the individual network actors, (2) regarding personal relations between managers as an important element in the contractual grounding of an exchange, (3) discussing the role of long-term commitment, reciprocity and trust to reduce uncertainty about the future consequences of relational investments, and (4) including not only economic and technical information related to price, product and market, but also information flows about social behaviour, values, symbols and culture-specific authority criteria (Powell, 1990).

Networks are claimed to be complementary to competitive relations and short-term contracts in the market (Dussauge & Garrette, 1999). The benefits of networks are increased flexibility from the partners, a more open stream of confidential information between exchange partners, and reduced conflict as shown in the following table (Borch & Arthur, 1995).

	Neo-classical Principles of Strategic Management	Strategic Network Management Principles
Flexibility	Low, Limited to Formal Contract	High, Based on Openness to the Consequences of Trust
Conflict-reducing Mechanisms	Power-oriented. Based on Formal Agreement and Law	Norm-oriented, Based on Communicative Action and Agreement
Range of Relation	Limited in Time and Space Through Formal Contracts	Long Range Because of Transaction-specific Investments
Connection to Personal and Social Life-worlds	None. Instrumental and System-oriented	Several. Co-ordination Through involvement of Personal Affiliation and Social Norms

Table 3 Neo-classical Principles of Strategic Management vs. Strategic Network Management Principles

The activities of the firm in a strategic network are cumulative processes including both increased dependency through exchange and the development of social bonds. The partners in a network gradually build dependency on resources controlled by others in the network and position themselves to make future use of these resources (Johanson & Mattsson, 1987).

The partners within a strategic network must rely on each other to share unforeseen benefits and costs of the exchange. Such mutual trust can be achieved through the extension of exchange relations to incorporate deeper personal commitments among the participants. Shared values, norms, inter-personal affiliation and respect, that have been found important to help the single firm cope with increased complexity and uncertainty, need now to be extended to stakeholder contractual relations. Because of complexity and turbulence, the formalised legal contract is not sufficient to co-ordinate and control such transactions (Granovetter, 1985). However, a relation-based co-ordination can reduce uncertainty, and thereby transaction costs (Williamson, 1991).

In sum, a stakeholder perspective emphasising strategic network principles suggests a broad analytical frame as well as new tools for solving strategic challenges. Included are a knowledge of trust-building, and of creating an atmosphere to stimulate learning and adaptation processes (Johanson & Mattsson, 1987). Strategic networks may serve as a complementary solution to co-ordination through formal-legal contracts based on law, or through hierarchy and internal bureaucracy.

2.3.3 *Deliberating a Relational View of the Firm*

Scholars in the strategy field are concerned fundamentally with explaining differential firm performance (Rumelt et al., 1991). As strategy scholars have searched for sources of competitive advantage, two prominent views have emerged regarding the sources of supernormal returns. The first – market-based view (MBV) – associated with Porter (1980), suggests that supernormal returns are primarily a function of a firm's membership in an industry with favourable structural characteristics. Consequently, many researchers have focused on the industry as the relevant unit of analysis. The second view – the resource-based view (RBV) of the firm – argues that differential firm performance is fundamentally due to heterogeneity, rather than industry structure (Rumelt, 1984, 1991; Wernerfelt, 1984; Barney, 1991). Firms that are able to accumulate resources and capabilities that are rare, valuable, non-substitutable, and difficult to imitate will achieve a competitive advantage over competing firms (Dierickx & Cool, 1989; Barney, 1991). Thus, extant RBV theory views the firm as the primary unit of analysis. As a further development of the RBV, the dynamic capabilities approach (Teece et al., 1997) also views the firm as the unit of analysis.

Although these two perspectives have contributed greatly to the understanding of how firms achieve above-normal returns, they overlook the important fact that the (dis)advantages of an individual firm are often linked to the (dis)advantages of the network of relationships in which the firm is embedded (Dyer & Singh, 1998; Porter, 1998). Proponents of the RBV have emphasised that a competitive advantage results from those resources and capabilities that are owned and controlled by a single firm. Competing firms purchased standardised (non-unique) inputs that cannot be sources of advantage, because these inputs (factors) are either readily available to all competing firms or the cost of acquiring them is approximately equal to the economic value they create (Barney, 1986). However, a firm's critical resources may extend beyond firm boundaries.

Recent studies suggest that productivity gains in the value chain are possible when trading partners are willing to make relation-specific investments and combine resources in unique ways (Dyer, 1996). This indicates that firms who combine resources in unique ways realise an advantage over competing firms who are unable or unwilling to do so. Thus, idiosyncratic inter-organisational linkages may be a source of relational rents and competitive advantage (Moss Kanter, 1994).

Dyer and Singh's (1998) relational view of the firm suggests that a firm's critical resources may span firm boundaries and be embedded in inter-organisational routines and processes. The central thesis of the relational view is that a pair or network of organisations can develop relationships that result in sustainable competitive advantage. Inter-organisational relationships are the unit of analysis. The relational view extends the existing literature on alliances and networks in a number of ways. First, it attempted to integrate what is known regarding the benefits of collaboration by examining the inter-organisational rent-generating process. Dyer and Singh (1998) have argued that collaborating organisations can generate relational rents through relation-specific assets, knowledge-sharing routines, complementary resource endowments, and effective governance. Second, the relational view has identified the isolating mechanism that preserves the relational rents generated through effective inter-organisational collaboration. The relational view introduces mechanisms not discussed previously in the literature on sustainability of rents: inter-organisational asset connectedness, partner scarcity, co-evolution of capabilities, and institutional environment.

2.4 A Framework to Analyse Stakeholder Partnership Building

The three reviewed theory areas – business and society, stakeholder theory and strategic relations – comprise the conceptual foundations and key issues that are used to construct a framework with which stakeholder partnership building is analysed. From each theoretical area, a key message can be gained that reflects the theoretical development and its likely future direction. Unfolding business and society makes clear that organisations have moved from a reactive compliance orientated management of social issues to a more proactive engagement in CSR-related challenges. Research and the focus within stakeholder theory development moved away from considering stakeholders as environmental constraints towards engaging them as political partners that are seen as a valuable resource for firm's long-term survival. The review of strategic relationship literature clearly indicates a transition from a buffered dependency on stakeholders towards a bridging dynamic interdependency between a firm and its surroundings' as well as influential stakeholders.

For this research partnerships are defined as trust-based collaborations between individuals and/or social institutions with different objectives that only can be achieved together. The basis for successful partnerships is an agreement about rules for co-operation. A higher consensus means less regulated partnering because of a minimised conflict potential.

There are two areas for which the three theory fields and the derived key messages provide key issues. Navigating social risk refers to a firm's process of social risk management and establishes the context in which a firm builds stakeholder partnerships. It is important to analyse the key characteristics of the context in order to explain similarities and differences within firm's stakeholder partnership building processes. Key issues of these processes establish the core for analysing stakeholder partnership building and finally the variables to describe and differentiate the processes of stakeholder partnership building.

For the contexts of navigating firm's social risk are social capital, connecting processes with stakeholders, and the set course for social risk management, key issues. Key issues for the analysis of stakeholder partnership building are the purpose, power relationships, and agreement between the partners, and the evolution of the partnership.

The following table summarises key messages and key issues that establish the framework to analyse stakeholder partnership building:

Conceptual Foundations	Key Messages Derived from Theory Development	Key Issues for Navigating Firm's Social Risk	Key Issues of Stakeholder Partnership Building	
Business & Society	From Reactive Compliance to Proactive Engagement	Social Capital	Purpose	
Stakeholder Theory	From Environmental Constraints to Political Partners	Connecting Processes	Power Relationships	Process of Evolution
Strategic Relationships	From Dependence to Dynamic Interdependence	Set Course	Agreement	

Table 4 A Framework to Analyse Stakeholder Partnership Building

Chapter 3 RESEARCH METHODOLOGICAL ISSUES

> *Scientists and philosophers use a logic – they have a cognitive style which is more or less logical – and some of them also formulate it explicit. I call the former the logic-in-use, and the latter the reconstructed logic [...] There are many logics-in-use and there are many reconstructed logics.*
>
> Abraham Kaplan (1964)

In any research procedure, a distinction must be drawn between two related concepts: methodology and method. Methodology is the analysis how research should, or does proceed. It includes discussions of how theories are generated and tested – what kind of logic is used, what criteria they have to satisfy, what theories look like and how particular theoretical perspectives can be related to particular research problems. Ontological assumptions, epistemology, human nature, and a methodological strategy are elaborated because they constitute the research's underlying methodology – in other words, methodology is a reflection on the research itself.

Methods of research are the actual techniques or procedures used to gather and analyse data related to a given research question or hypothesis. To describe the method selected for this research, four issues require considerations: the theoretical direction adopted, the nature of this process, the reason for the application of a qualitative inquiry, and the study research strategy that establishes the elements for the specific research design.

Research design may be defined as the logic that links the data to be collected and the conclusion to be drawn to the initial questions of a study. Together, the characteristics and the process of case selection, data collection, data analysis as well as validation issues trace the design of this research project, involving stakeholder partnership building.

3.1 RESEARCH METHODOLOGY

3.1.1 Applying Critical Realism

A paradigm may be viewed as a set of basic beliefs or metaphysical assumptions that deal with ultimates or first principles (Kuhn, 1970). A paradigm represents a worldview that defines, for its holder, the nature of the world, the individual's place within it, and the range of possible relationships to that world and its parts, as, in the case with, cosmologies and theologies. Part of this belief system is ontology, which refers to the assumptions made about the primitive elements or components of reality that constitute the basic phenomenon to be studied (Mitroff & Mason, 1982). Ontology refers to the claims or assumptions that a particular approach to social inquiry makes about the nature of social reality – claims about what exists, what reality looks like, what units make it up and how these interact with each other (Blaikie, 1995).

Four paradigms currently compete for acceptance as the paradigm for informing and guiding qualitative inquiry: these are positivism, post-positivism, critical theory and related ideological positions, and constructivism (Mitroff, 1985; Guba & Lincoln, 1994). Critical realism is the ontology of post-positivism and the perspective taken in this research. Its nature distinguishes ontology, and provides reasons for its application in terms of the debate about underlying assumptions like the disjunction of nomothetic and ideographic.

Critical realism assumes that reality exists but can only be imperfectly apprehended because of basically flawed human intellectual mechanisms and the fundamentally intractable nature of phenomena. This ontology is labelled as critical realism (Cook & Campbell, 1979; Bhaskar, 1986; Collier, 1994) because of the posture of its proponents who claim that reality must be subjected to the widest possible critical examination, so as to facilitate apprehending reality as closely as possible, although never perfectly. Knowledge consists of non-falsified hypotheses that can be regarded as probable facts or laws (Tsang & Kwan, 1999).

Social reality is viewed as a socially constructed world in which either social episodes are the products of the cognitive resources social actors bring to them or social arrangements remain the products of material, yet unobserved constructs of relations (Berger & Luckmann, 1996; Searl, 1995). The aim of critical realism is to explain or describe observable phenomena with reference to underlying structures or mechanisms (Blaikie, 1995).

Bhaskar (1986) suggests that experiences, events and mechanisms constitute three overlapping domains of reality: empirical, actual and real. The empirical domain consists of events which can be observed; the actual domain consists of events whether or not they are observed; meanwhile, the real domain consists of the structures and mechanisms which produce these events. This research analyses the underlying structures of stakeholder partnership building, rather than explaining its underlying mechanisms. However, social structures can neither be identified independently from their effects nor be seen as existing independently of them.

3.1.2 Contextualism as Modified Dualism

Associated with ontological issues, is a second set of assumptions about the grounds of knowledge (Burell & Morgan, 1979). An epistemology represents a view and a justification for what can be regarded as knowledge – what can be known, and what criteria must be satisfied in order to call it knowledge rather than belief (Blaikie, 1986).

These assumptions entail ideas, for example, about what forms of knowledge can be obtained, and how one can distinguish between 'true' and 'false'. Indeed, this dichotomy itself presupposes a certain epistemological stance. It is predictated upon a view of the nature of knowledge itself: whether, for example, it is possible to identify and communicate the nature of it as being objective or whether it is subjective. The epistemological assumptions underlying these instances are extreme positions regarding whether knowledge is something that can be acquired (objectivist), or is something which has to be personally experienced (subjectivist) (Morgan & Smircich, 1980).

For this research a modified dualist/objectivist perspective is applied (Guba & Lincoln, 1994). Dualism of objectivity and subjectivity is largely abandoned, as it is untenable, but while objectivity remains a 'regulatory ideal'; special emphasis is placed on external 'guardians' of objectivity such as critical traditions (Do the findings fit with pre-existing knowledge?) and the critical community (editors, referees, and professional peers). Replicated findings are probably true but always subject to falsification (Lee, 1991).

Despite the requirements for objectivity, however, research can also be characterised by the language of muddling through, incrementalism, and political processes rather than as a rational, goal-directed activity. For this reason Pettigrew (1985) develops a contextualist approach that puts into practice a modified dualist perspective.

> *Contextualism is concerned with the event in its setting; the truth theory has to be qualitative confirmation, since the context will change and knowledge will also need to change, and the root metaphor is the historical event.* (Pettigrew, 1985, p. 230)

From a contextualist perspective, human behaviour needs to be understood with reference to the duality of structure and the socially constructed meaning over time. Structuration theory helps to understand human nature, and is therefore a metatheory for stakeholder partnership building.

3.1.3 Structuration Theory as Metatheory

Associated with ontological and epistemological issues is another set of assumptions concerning human nature and, in particular, the relationship between human beings and their environment (Burrell & Morgan, 1979). This type of assumption is important since human life is essentially the subject and object of inquiry. Thus, one can identify perspectives in social science which entail a view of human beings as responding in a deterministic fashion to the situation encountered in their external world. The view tends to be one in which human beings and their experiences are regarded as products of the environment. This extreme perspective can be contrasted with one that ascribes to human beings a much more creative role: with a perspective where social actors are regarded as the creators of the environment. Given these two extreme views of the relationship between human beings and their environment, there has been a long-standing philosophical and sociological debate between advocates of determinism and voluntarism (Layder, 1997). Whilst there are social theories which adhere to each of these extremes, the assumptions of many social scientists are situated somewhere in between. Sztompka's (1991) theory of social becoming and Giddens' (1984) structuration theory are cases in point.

Structuration theory is a concept used to identify a contemporary approach to social theory and methodology. However, "structuration theory is not intended to be a theory 'of' anything, in the sense of advancing generalization about social reality" (Giddens, 1991, p. 204). It is, rather, an attempt to reconstruct some of the basic premises of social analysis, particularly a methodological framework for the study of human social activities, and may therefore be seen as a metatheory. The theory establishes a bridge between the concerns of some traditions of social theory, or between the experiences of social actors and the existence of forms of social totalities, between 'agency' and 'structure'. Building this bridge requires a theory of the human agent, an account of the conditions and consequences of social action, and an interpretation of 'structure' as dealing with both conditions and consequences (Giddens, 1979). The bridging theory dispenses with the notion of 'function' and is based on the view that dualities such as 'subject' and 'object', or 'action' and 'structure', need to be re-conceptualised under the concept of 'duality of structure', the core concept of Giddens' structuration theory.

"By the duality of structure I mean that social structures are both constituted by human agency, and yet at the same time are the very medium of this constitution" (Giddens, 1976, p. 121). Social structures are both the conditions and the consequences of social interaction. They are the rules and resources drawn upon by social actors as they engage with each other in interaction, and cannot be seen as patterns of social relationships. Structures are not external to the social actor. They exist in memory traces and are embodied in social practice. This view is very different from that adopted by the structuralist traditions of social science.

Many critics have argued that the central concepts in Giddens' scheme – structure, structuration and duality of structure – are ambivalent and inadequately developed. They are seen as abstract, and lacking in empirical examples (cf. Layder, 1997). In a sympathetic review of the relevance of structuration theory to policy research, Bryant (1991) has suggested that Giddens contribution lies not so much in empirical research as in his conceptualising of a dialogical model of social science, flowing from elements of structuration theory.

3.1.4 Retroduction as Methodological Strategy

Ontology, epistemology and assumptions about human nature have a direct bearing on the nature of methodological strategy (Burrell & Morgan, 1979). Different ontologies, epistemologies and models of human nature are likely to lead social scientist to adopt different methodological strategies. It is possible to differentiate between those strategies employed in social science research that treat the social world as a natural world as being hard, real and external to the individual, and others which view it as being of a much softer, personal and more subjective quality. The former perspective expresses itself most forcefully in a search for universal laws – a nomothetic approach. The latter perspective – an ideographic approach – questions whether there is any external reality as such worthy of study.

The underlying question of methodological strategy is how an inquirer can go about finding out whatever he or she believes can be known (Guba & Lincoln, 1994). An inductive argument begins with a singular or particular statement, and concludes with a general or universal statement. The deductive strategy is sometimes referred to as the 'hypothetico-deductive' or the 'falsificationist' approach, or the method of conjecture and refutation (Blaikie, 1995). Induction and deduction are both criticised for their linear logic (Gutting, 1980). Pettigrew (1997) suggests joining induction and deduction into an iterative strategy. Blaikie (1995) refers to two further strategies – abduction and retroduction.

Retroduction and abduction are based on cyclical or spiral processes. Abduction involves constructing a theory which is derived from social actors' language, meanings and theories, or is grounded in everyday activities. The present research applies a retroductive strategy. It involves the construction of hypothetical models as a way of uncovering real structures and mechanisms assumed to produce empirical phenomena. The strategy adopted here encapsulates first the domain of the actual observed phenomena of social risk management through stakeholder partnerships. This is followed by the postulation of the existence of 'real' structures and mechanisms, which, if they existed, would explain stakeholder partnership building. Finally, a cross-case analysis attempts to demonstrate the existence and operation of partnership structures and mechanisms.

3.2 RESEARCH METHOD

3.2.1 Theory Building vs. Theory Testing

Strategic Management theory draws on a variety of disciplines, including industrial organisation economics, marketing, finance and administrative behaviour (Biggadike, 1981; Jemison, 19981; Lubatkin & Shrieves, 1986; Porter, 1981). Each of these disciplines has its specific paradigm, unit of analysis, assumptions, and research biases. Given this disciplinary diversity, it is not surprising that theory development relies on a broad array of research methods. Perhaps because the early strategy literature was dominated by case studies (e.g., Chandler, 1962; Learned et al., 1965), and because of the field's traditionally applied nature, field methods have dominated the development of empirical literature in strategic management theory (Shrivastava & Lim, 1989). Snow and Thomas (1994) classified theory-development according to their research objective (description, explanation, or prescription), and whether they built or tested theory.

Before a theory can be tested, it must be constructed. The process of theory generation typically includes steps such as the identification of relevant constructs, the development of propositions about relationships, and the proffering of explanations for these relationships (Eisenhardt, 1989; Denzin & Lincoln, 1997). Each of these steps addresses a different research goal. Description contributes to understanding primarily by identifying the concepts or constructs of a theory. With explanation as a research objective, the investigator must address the issue of causality among variables. A predictive study builds on the efforts of prior research through its ability to incorporate previously identified variables and hypotheses into a theoretical framework whose boundaries can be determined (Whetten, 1989).

After a theory has been assembled, it can be tested. Rather like theory building, theory testing moves through several distinct phases, each characterised by increasing specification and rigour. Because of statistical requirements, theory testing usually requires studies of larger size than theory building. Ultimately, theories that purport to explain the same phenomenon can be tested against each other. Description, in theory testing, focuses on construct measurement, while explanation concerns the documentation of relationships among variables. It has been claimed that prediction is the ultimate research goal (Venkatraman, 1990).

This research builds rather then tests theory. The objective is to identify and describe characteristics of stakeholder partnership building. Causalities between the analysed variables are not addressed, nor are the boundaries of a theoretical framework determined. However, a further decision needs to be made about the nature of the theory to be built.

3.2.2 Process vs. Variance Theory

Zucker (1977) observes that "institutionalisation is both a process and a property variable" (p. 728). Mohr (1982) differentiates between variance and process theories. Variance theory seeks to explain phenomena by applying dependent and independent variables, with the objective of producing externally valid propositions, and to establish causal relations (Scott, 1995). This theoretical approach addresses the question: Why did the observed effect happen? However, variance theories often seem to provide trivial truths, which "are of little value for improving practical wisdom" (Schön & Rein, 1994, p. 204).

Conversely, process theory seeks to provide understanding by investigating the sequence of events leading to an outcome, with temporal embeddedness of varieties in terms of precision, duration and relevance, and multiple levels of analysis (cf. Abbott, 1990; Pettigrew, 1997). Despite its primary focus on events, process data tends to be eclectic, drawing on phenomena such as changing relationships, thoughts, feelings and interpretations. Hence, the test of validation is based on data that results from the tracing of organisational events over time. Thus, the identification of processual elements is the key to developing process theories. There are two approaches to process theory development. The theory can be developed by a construct based, hypothesis-testing approach grounded on comparative logic (Eisenhardt, 1991) or by a story-based, interpretative approach, where insights can be obtained from rich accounts (Pettigrew, 1985; Ropo et al., 1997).

In conducting processual analysis based on constructs, researchers develop theories through a hypothetical process theories and test propositions using time-series process data (Langley, 1999). The focus of processual analysis is on defining clear constructs and thereby developing mechanisms to verify or falsify a set of propositions. This approach makes it necessary to record events, describe features and identify patterns from processes by using different methods of processual analysis (e.g., content-context-process model suggested by Pettigrew, 1987) or techniques of process data modelling (e.g., the seven sense making strategies for theorising process data proposed by Langley, 1999). Nonetheless, such an approach invariably fails to capture the ongoing dynamics and temporal evolution of stakeholder partnership building. The resulting theory may not take sufficient account of the conflicting mental models, reciprocal causalities and pluralistic context, thereby generating theories that are scientifically valid but practically less useful (Argyris, 1988; Van de Ven, 1988).

If researchers apply the paradigm of hypothesis testing to process theory building without the goal of telling good stories, "they are likely to miss both the calibre and the quantity of theory we have seen result from classical story-telling through case studies in the past" (Dyer & Wilkins, 1991, p. 618). Thus, a story-based approach is applied to this research. It can overcome some of the criticism levelled against a construct-based approach but it also has its weaknesses. Sometimes, processual research becomes a story-telling practice, without contributing sufficiently to the theory building, as Knudsen (1993) and Pentland (1999) propose. Starkey (1987) observes that the outcome of such an approach can easily become the writing of a novel. The process theory which arises from this research entails diachronic stories, from which most defining characteristics of stakeholder partnership building are analysed. To construct these stories, the question of whether a qualitative or quantitative inquiry is appropriate needs to be answered. Furthermore a specific data inquiry method has to be selected.

3.2.3 Qualitative vs. Quantitative Inquiry

The word 'qualitative' implies an emphasis on processes and meanings that are not rigorously examined or measured in terms of quantity, intensity, or frequency (Denzin & Lincoln, 1997). Qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry. Such researchers emphasise the value-laden nature of inquiry, and they seek answers to questions that stress how social experience is created and given meaning. In contrast, quantitative studies emphasise the measurement and analysis of causal relationships between variables, not processes. Such an inquiry is purported to be within a value-free framework.

Positive science (e.g., physics, chemistry, economics) is often seen as the crowning achievement of Western civilisation, and through this, it is assumed that "truth can transcend opinion and personal bias" (Carey, 1989, p. 99). Qualitative research is seen as an assault on this tradition. Its adherents often retreat into a "value-free objectivist science" (Carey, 1989, p. 104) model to defend their position. They seldom attempt to make explicit, or to critique, the "moral and political commitments in their own work" (Carey, 1989, p. 104). The opposition to positive science by post-positivists and post-structuralists is seen as an attack on reason and truth. At the same time, the positive science attack on qualitative research is regarded as an attempt to legislate one version of truth over another. Nevertheless, a qualitative inquiry is applied for this research project so as to provide a rich and in-depth description of the process of stakeholder partnership building.

Qualitative researchers use ethnographic prose, historical narratives, first-person accounts, still photographs, life histories, fictionalised facts, and biographical and autobiographical materials, among others. Quantitative researchers use mathematical models, statistical tables, and graphs, and often write about their research in impersonal, third-person prose. Qualitative research differs from quantitative research in five significant ways:

USES OF POSITIVISM. Although many qualitative researchers in the post-positivist tradition use statistical measures, methods, and documents as a way of locating a group of subjects within a larger population, they seldom report findings in terms of the kinds of complex statistical measures or methods on which quantitative researchers (Becker, 1993).

ACCEPTANCE OF POST-MODERN SENSIBILITIES. The use of quantitative, positivist methods and assumptions has been rejected by a new generation of qualitative researchers who are attracted to post- structural, post-modern sensibilities (Patton, 1980).

CAPTURING THE INDIVIDUAL'S POINT OF VIEW. Both qualitative and quantitative researchers are concerned about the individual's point of view. However, qualitative investigators think they can get closer to the actor's perspective through interviewing and observing (Stake, 1995).

EXAMINING THE CONSTRAINTS OF EVERYDAY LIFE. Qualitative researchers are more likely than quantitative researchers to confront the constraints of the everyday social world (Pettigrew, 1997). They view research as a process of abstraction (Fox-Wolfgramm, 1997).

Securing rich description. Qualitative researchers believe that rich descriptions of the social world are valuable, whereas quantitative researchers, with their nomothetic commitments, are less concerned with such details (Denzin, 1989).

Qualitative research involves the collection and the studied use of a variety of empirical materials that describe routine and problematic moments and meanings in individuals' lives. The research approach is inherently multi-method in focus (Brewer & Hunter, 1989). However, the use of multiple methods, or triangulation, reflects an attempt to secure an in-depth understanding of the phenomenon in question (Lewis & Grimes, 1999). Objective reality can never be captured. Triangulation is not a tool or a strategy of validation, but an alternative to validation (Denzin, 1989). The combination of multiple methods, empirical material, perspectives and observers in a single study is best understood, then, as a strategy that adds rigor, breath, and depth to any investigation (cf. Flick, 1992, p. 194). With the differences between these two research approaches understood and the criticism about qualitative data elaborated, a specific research strategy needs to be selected.

3.2.4 Case Study as Research Strategy

The craft of research is enhanced by respect for error and surprise, storytelling, emotion, common sense, firsthand learning, and research colleagues (Daft, 1983). Within this context Creswell (1998) distinguishes five traditions of research strategy in terms of methodology and research objective. Biographical strategy relating to a single individual is selected when material is available and accessible and the individual is willing to share information; a phenomenological strategy is selected to examine a phenomenon and the meaning it holds for individuals; a grounded theory study is used to generate a normative theory; an ethnography strategy is utilised to study the behaviour of a culture-sharing group or individual; a case study strategy is selected to examine a case, bounded in time or place, and to look for contextual material about the setting of the case.

According to Yin (1996) a case study copes with the technically distinctive situation in which there will be many more variables of interest than data points. A case study is an exploration of a bounded system or a case (or multiple cases) over time through detailed, in-depth data collection involving multiple sources of information rich in context. This system is bounded by time and place, and it is the case being studied – a programme, an event, an activity, or individuals. Multiple sources of information include observation, interviews, audio-visual material, documents and reports. Collected data can be both of a qualitative and quantitative nature. The context surrounding the case involves situating it within its setting, whether a physical, social, historical, and/or economic. The focus may be on a case that, because of its uniqueness, requires studies (intrinsic case study), or it may be on an issue or issues, with the case used instrumentally to illustrate the issue (an instrumental case study) (Stake, 1995). When more than one case is studied, this is referred to as a comparative case study (Yin, 1993).

Although Eisenhardt's (1989) conceptual work of theory building from case study research was criticised by Dyer and Wilkins (1991) as being too construct-based, the proposed process elements can be adapted for story-based approaches as well. Eisenhardt's case study strategy features are: getting started, selecting cases, crafting instruments and protocols, entering the field, analysing data, shaping propositions, enfolding literature reaching closure. This research analyses characteristics of stakeholder partnership building rather than propositions about the process.

Two issues are important in reaching closure: when to stop adding cases, and when to stop iterating between theory and data. The answer to both points is that one should stop if the incremental improvement is minimal. Theoretical saturation is the point at which incremental learning is minimal because the researcher is observing phenomena seen before (Glaser & Strauss, 1967).

Theory development from case study research is likely to have important strengths such as novelty, testability, and empirical validity, which arise from intimate linkage with empirical evidence. Given the strengths of the theory-building approach and its independence from prior literature or past empirical observation, it is particularly well suited to new research areas like stakeholder partnership building.

3.3 RESEARCH DESIGN

3.3.1 Selecting Case Studies

In conducting case study research, it is recommended that investigators first consider what type of case study is most promising and useful. The case can be single or collective, multi-sited or within-site, focused on a case or on an issue (Yin, 1989; Stake, 1995). For this research, stakeholder partnership building processes were studied. In addition, to describe their evolution and reasons for emergence, it was crucial to understand the firm's social integration or reintegration process.

In choosing what case to study, an array of possibilities for purposeful sampling was available (Creswell, 1998). McWilliams and Siegel (1997) suggest that critical incidents are effective case selection criteria to enhance the force of case illustration and variance. Creswell (1998) proposes that case studies should be selected if they provide different perspectives on the problem, process, or event that needs to be portrayed. The sampling criteria were differences and similarities between the cases. In 1997, a pilot study was conducted of BMW in Germany. The objective was to tune the theoretical framework and the criteria for case selection on the basis of empirical data of selected business practices.

BP and Hoechst have been chosen as the base for case studies in this study because critical incidents and stakeholder partnership building challenged them. However, whereas BP faced accusations of human rights abuses in Colombia – a less-developed country, Hoechst underwent chemical accidents in Germany – a developed country. Social risk management was an issue for both companies. Further enhancement of variance derived from the different industrial sectors in which the companies operated. There were also differences because Hoechst was a German company and BP British.

Stakeholder partnerships with different objectives have been selected. However, similarity is also important, otherwise no comparison would be possible. Therefore, similar partnerships are selected in terms of the involved stakeholders and underlying generic process elements. The process of building stakeholder partnerships is the unit of analysis. The three levels of analysis are social, institutional and individual, with a primary focus on the second.

3.3.2 *Conducting Case Studies*

The data collection was intensive, drawing on multiple sources of information such as observation, interviews, documents, audio-visual materials, and archival data. However, because the primary sources of evidence were interviews, access to the case study companies had to be negotiated. Since data sensitivity was a critical issue, the negotiation with each company and the involved stakeholders was problematic and took more than six months. During this time, and during the interview process itself, a high level of trust was sought with the objective of gaining detailed access to data.

A hundred and fifty six interviews were conducted and data from seven participant observations collected. The interviews lasted between one and two hours. Eight videos and more than four hundred documents were analysed. Data from companies' archives was collected to trace the history of specific issues. English, German and Spanish are the languages of the collected data. Interviews were held with stakeholders and managers from headquarters and subsidiaries. This included long field visits to Great Britain, Colombia and Germany. Board level managers and operational managers were interviewed. As far as they were involved in the partnerships that are at the focus of this study, stakeholders were interviewed. In addition, critical observers of the stakeholder partnerships were asked about their opinion and observations.

For this research, a general, open-ended interview guide approach was applied. Topics and issues to be covered were specified in advance, in outline form; the interviewer decided on the sequence and wording of questions in the course of the interview. The interview was always adapted to the specific individual profile of the interviewee. While collecting data from multiple sources of evidence, a case study database was created and a chain of evidence was built. Where necessary, interviewees were re-interviewed. There was a continuous feedback loop between key decision-makers of the stakeholder partnerships and the interviewer in order to refine and to assure findings. Data was continuously compared and scrutinised against consistency. For this research a chronological case study report structure was chosen because the case studies cover events over time.

3.3.3 *Analysing and Interpreting Case Studies*

The role of theory in this research is characterised as analytic generalisation, and set in contrast to other ways of generalising results, known as statistical generalisation. Within this context previously developed theory is used as a quasi-template with which to compare the empirical results of the case study. The type of analysis of case study data can be a holistic analysis of the entire case or an embedded analysis, of a specific aspect of the case (Yin, 1989). This study applies an embedded analysis because the case studies are two companies and their management of social risk; whereas the unit of analysis is embedded within it – four processes of building stakeholder partnerships.

The underlying analytical paradigm of this case study research is processual analysis, which is well established and a growing approach to strategy research (cf. Van de Ven, 1988; Chakravarthy & Doz, 1992; Huber, 1995; Pettigrew, 1997). Issues of time, agency, structure, context, emergence and development are crucial in human conduct and have been widely implemented in processual analysis (Hinings, 1997). Studying processes over time and in its context have become integral component in this analytical concept (Tuttle, 1997; Zaheer et al., 1999). Pettigrew's (1997) triangulation of context, content and process will be applied to this multi-level case analysis. The major contribution of process research is "catching reality in flight" (Pettigrew, 1997, p. 345). A missed opportunity is to see the wider terrain in which the set of comparative cases under study is located.

Through data collection, a detailed description of the cases emerges, as do an analysis of themes and an interpretation, and finally, assertions about the case (Stake, 1995). The analysis is rich in the context of the case and setting in which the case presents itself (Merriam, 1988). The investigator narrates the study through techniques such as a chronology of major events followed by a close-up and detailed perspective relating to a few incidents. When multiple cases are chosen, as for this study, a typical format is given, which provides an initial detailed description of each case and theme within the case, known as within-case analysis, followed by a thematic analysis across the cases, called a cross-case analysis, as well as assertions and an interpretation of the meaning of the case. Eisenhardt

(1989) proposes a cross-case analysis method composed of categorisation, search for similarities and differences, and stratification on the basis of data sources.

There are further analytical tools such as pattern matching, explanation building, time series analysis, and programme logic models (Patton, 1980; Miles & Huberman, 1994). However, these techniques are more suitable for explanatory and predictive rather than descriptive analysis. Stake (1995) advocates pattern generation, direct interpretation, naturalistic generalisation and categorical aggregation as the four forms of data analysis and interpretation for case studies. This research applies categorical aggregation. The researcher seeks a collection of instances from the data, hoping that issue-relevant meaning will emerge.

It is important to have the right case study balance in terms of the amount of description versus the amount of analysis and interpretation or assertions. In comparing description versus analysis, Merriam (1988) suggests that a proper balance might be sixty to forty per cent or seventy to thirty per cent in favour of description. In the final interpretative phase of a case study analysis, the researcher reports, as Lincoln and Guba (1985) mention, the 'lessons learned' from the case. As McGloskey (1998) emphasises, it is crucial to find the right rhetoric 'to persuade with sweet talk'.

3.3.4 Case Study Validation Issues

Qualitative researchers strive to gain a deep structure of knowledge that comes from visiting personally with informants, spending extensive time in the field, and probing to obtain detailed meanings. During or after, qualitative researchers ask, "Did we get it right?" (Stake, 1995, p. 107) or "Did we publish a 'wrong' or inaccurate account?" (Thomas, 1993, p. 39). To answer these questions, the researcher asks participants in the study or, better yet, reflects on the question personally. Further, the researcher looks to the multi-vocal discourse communities such as constructivists and interpretivists to raise the question and pose the answers (Denzin & Lincoln, 1997).

On the basis that a research design is supposed to represent a logical set of statements, one can judge the quality of any given design according to certain logical tests. Because the four tests are common to all social science methods, the tests have been summarised in numerous textbooks (cf. Kidder & Judd, 1986; Yin, 1993).

CONSTRUCT VALIDITY means establishing operational measures for the concepts being studied.

INTERNAL VALIDITY varies according to whether the research is explanatory, descriptive or prescriptive. For the former causal relationship is established, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships. The latter refers to the analysis of similarities and differences within and between cases or frameworks of cases that establish internal validity.

EXTERNAL VALIDITY establishes the domain to which a study's findings can be generalised. RELIABILITY to demonstrate whether the operations of a study, such as the data collection, can be repeated, with the same results.

Tests	Case Study Tactic	Phase of Research
Construct Validity	▪ Multiple Sources of Evidence ▪ Establish Chain of Evidence ▪ Key Informants Review Draft Case Study Report	▪ Data Collection ▪ Data Collection ▪ Composition
Internal Validity	▪ Within-Case Analysis ▪ Cross-Case Analysis	▪ Data Analysis ▪ Data Analysis
External Validity	▪ Replication Logic Within the Four Units of Analysis and the Different Context	▪ Research Design
Reliability	▪ Case Study Protocol ▪ Develop Case Study Database	▪ Data Collection ▪ Data Collection

Table 5 Stakeholder Partnership Case Study Validation Issues

Patton (1980) suggests that an important way to strengthen a study is triangulation, or the combination of methods in the study of the same phenomena. For this research data triangulation is applied, the use of a variety of data sources in a study. Another applied verification tool is investigator triangulation, namely the use of several different evaluators. Theory triangulation is used, the consideration of multiple perspectives to interpret a single set of data; and finally, methodological triangulation, the application of multiple methods to study the two companies and the four different processes of building stakeholder partnerships.

Part II Practice of Social Risk Management

Sustainable growth is the modern utopia, one that does not promise too much.

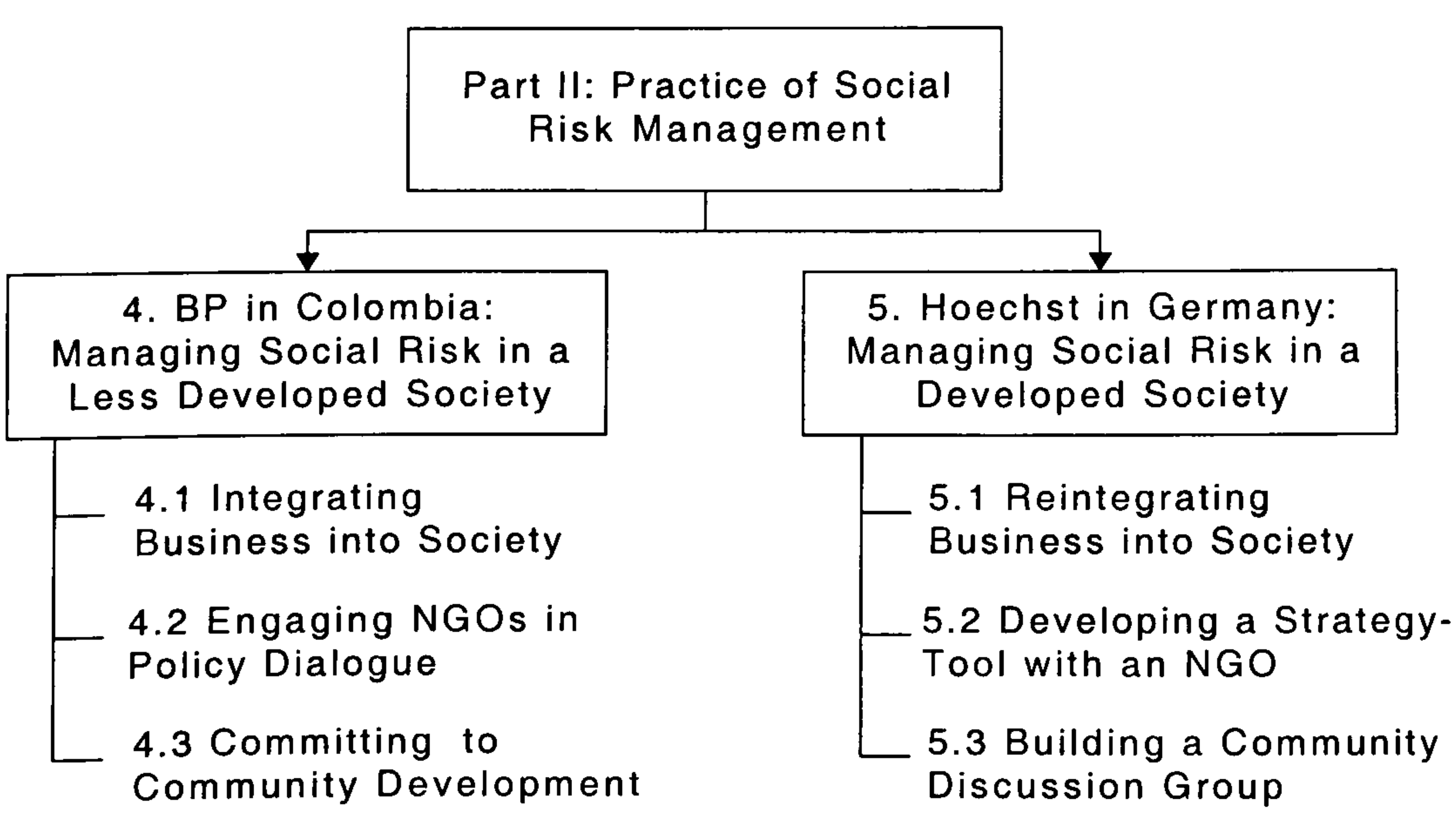
Frits Wils (1998)

The practice of social risk management is described through a focus on the process of stakeholder partnership building. Two different transnational companies are selected. Whereas one represents a business case in a less developed society, the other does so in a developed society: British Petroleum (BP), one of the world's leading energy companies, established a new oil exploration business in Colombia facing the problem of social integration in a conflicting environment. Hoechst, one of the world's leading life-science companies, experienced pressure for social reintegration in Germany, in a relative stable environment, but with uncertainty arising from the long-term social impact of business practice. Partnerships with NGOs and communities are at the core of BP's and Hoechst's social risk management.

The management processes of the two cases can be seen to focus on three spheres:

- The internal process of social integration and reintegration;
- The external process of building partnerships with NGOs;
- The external process of community partnership building.

Each sphere provides information about the initial problem and situation. The management process is described chronologically, and can be seen to be structured by major themes and characteristic features. This description of BP's and Hoechst's practice of social risk management forms the basis for the subsequent analysis of characteristics for stakeholder partnership building.



Chapter 4 BPX IN COLOMBIA: MANAGING SOCIAL RISK IN A LESS DEVELOPED SOCIETY

Oil has shaped the politics of the twentieth century and has changed profoundly the way we lead our daily lives.

Daniel Yergin (1991)

British Petroleum (BP) is a transnational company, having operations in over 70 countries. The company is a holding with independent exploration, chemicals, refining and marketing businesses. In the 1990s, the company faced the challenge of managing social risk, a challenge induced by its business integration in less developed societies. BP not only faced criticism of its business practice, but also accusations of human rights abuses and environmental damage. This chapter focuses on the presence of BPX (BP Exploration) in Colombia. The journey towards a society-driven company is described and analysed by focusing on three relevant areas of social risk management:

- BPX's social integration in Colombia;
- The engagement with NGOs in policy dialogue;
- The commitment to community development.

BP, with its headquarters in London, is one of Britain's biggest companies, and one of the world's largest oil and petrochemical groups. In 1997 its profit was USD 4.6 billion, which represented a 17 per cent ROCE (BP Annual Report, 1997). The company directly employed 56,000 people. In BPX's first six decades, its prime area of involvement was in the Middle East. From the late 1960s the centre of gravity shifted westwards, towards the USA and Britain itself. A third shift started in the late 1980s, with an increased focus on countries in Africa, the former Soviet Union and South America – all areas of social conflict. BPX in Colombia is an example of a transnational company operating in a less developed society, striving for a licence to operate through social integration and stakeholder partnership building.

4.1 INTEGRATING BUSINESS INTO SOCIETY

4.1.1 Social Risk as an Effect of Business Integration

Founded in 1909, BP owes its origin to William Knox D'Arcy, who invested time, money and labour in the belief that a worthwhile deposit of oil could be found in Persia. Since this early years, when setting-up a new exploration site, besides technological challenges, the company always faced political and social issues. However, in the 1990s, when BP began to invest in social conflict-led countries, these soft issues became even more important.

Today, one country in which BPX operates is Colombia, which has South America's oldest democracy. Although it is in many ways much advantaged, it is nonetheless afflicted with violence, a much criticised human rights record and a huge, underground international narcotics industry. The cocaine industry is estimated to be worth USD 3 billion per annum, which is more than three times Colombia's earnings from oil exports (Economist, 19 July 1999). Guerrilla movements have been active since the 1960s. In 1990, a peace agreement was negotiated between the government and the three main guerrilla groups. One group became actively involved in the new 1991, constitution but the other two rejected assimilation, and have continued to attack government and military installations, as well as industrial and civilian targets, and are increasingly financed by the drug cartels. There are an estimated 10 to 15,000 full-time guerrillas operating in Colombia.

Guerrilla groups have targeted the oil industry, kidnapping and killing people associated with it and regularly blowing up pipelines. According to BP's Senior Policy Advisor, "six times the amount of oil spilled in the Exxon Valdez has been spilled due to guerrilla activities". Meanwhile, paramilitary organisations with a variety of different affiliations, illegal but allegedly often supported by an exasperated Colombian army, are countering the guerrillas' presence in particularly brutal ways, including the murder of those suspected of collaboration with the guerrillas. Any oil company that invests in Colombia will be affected by guerrilla and paramilitary activities, which put business of an extreme level at risk.

Before the oil development, Casanare, the regional district of Colombia where BPX operates, had been a sparsely populated agricultural area, effectively cut off from government interest and the rapidly developing urban areas of the country. When BPX began its business involvement in Casanare, the inhabitants of the region were relatively poor. Cattle breeding and rice-growing were the main sources of income. The local workforce was underskilled, and was prone to high levels of unemployment. Feeding on local discontent were guerrilla groups that came to Casanare because of BPX's oil operations, keen to denounce the activities of the oil company and ever ready to exploit popular fears for their own ends, which included organised crime, drug-trafficking, extortion, kidnapping and political manipulation.

Since BPX's presence, society has changed. Casanare's GDP is due to reach USD 2 billion in 2000 from a figure of USD 0.75 billion in 1995 (Economist, 8 August 1998). The population of the area is now 200,000 and is growing fast. Previously small villages such as Yopal and Tauramena have become boomtowns, with all the associated problems of rapid development, such as inadequate government, poor infrastructure and prostitution. The arrival of BPX in the province raised people's hopes for better employment prospects, more investment in the economy and social infrastructure, and other direct benefits arising from royalties and tax revenues. However, because of the existing social uncertainty, there was no obvious right way to fulfil society's expectations.

Based on the uncertainty associated with unintended social development, BPX had to manage a variety of social risk potentials that could affect the company, but which were also induced by its presence. In addition, many critical ecological issues impinged on company's operations. BPX had entered a rural, nearly untouched part of Casanare, where it changed not only the way of life, and its quality, but also the countryside. Besides wealth creation, there was an impact on the ecological environment that would not have existed without BPX. The company had no experiences in managing social and environmental issues in a cultural context such as that of Colombia. BPX recognised its social responsibility, but also faced accusations of human rights abuses and environmental damages. Social risk induction was predetermined. Therefore social risk needed to be managed, not only because of the impact on firms' overall performance. A BP investor relations manager said:

> *[...] investment community does not care directly about BP's licence to operate; they care indirectly. They want to know if [BP] does anything that could compromise [its] ability to generate rent.*

4.1.2 *From a Technology to a Society Driven Company*

From the 1970s to the early 1990s BP, as many other Western oil companies, focused primarily on two exploration areas: North America and Europe. These were technology intensive and drove the company into a 2-pipeline dependency. At the end of the 1980s, BPX began to explore new areas for oil and gas production. The company invested in less developed countries to be prepared for the future.

In 1986, BPX started a major oil and gas exploration programme in Colombia that came on stream in the early 1990s. This was an investment in a social conflict area. Consequently, during the construction and production period, BPX was confronted with the management of society's expectations that had direct influence on its business activities. Although, the company thought that it contributed positively to the society, in 1996 it was accused of human rights abuses and environmental damages. Since then, BP strategized corporate reputations to restore and maintain its licence to operate (LTO). The company managed the aftermath of the accusations, re-gained credibility and developed prevention activities for similar incidents in the future. As a direct outcome of this learning process and the ambition to design a responsible way forward, BP reviewed its corporate policy. To control and communicate its social and environmental impact, in 1997, the company systematically began to measure and report its social and environmental accountability.

The following seven sections describe BP's society driven change process within the context of social risk management.

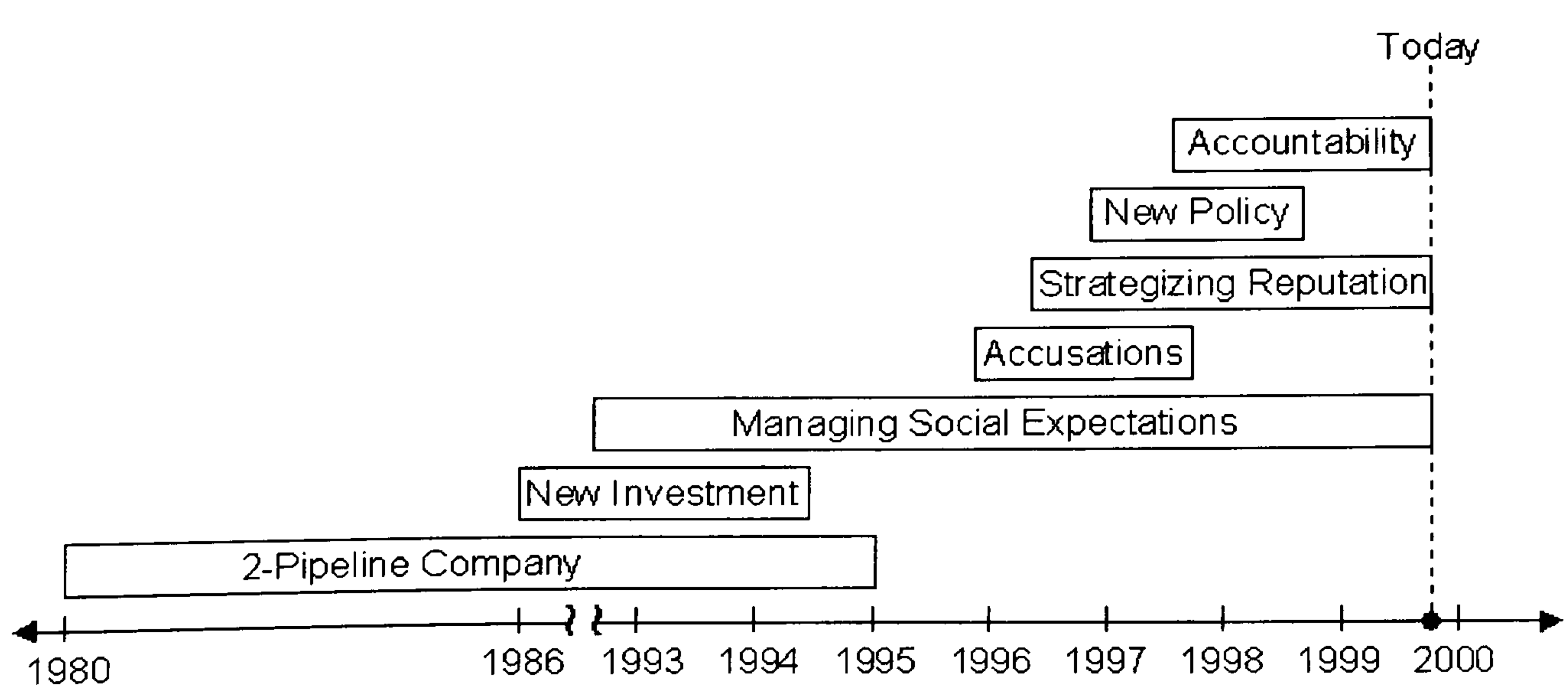


Figure 5 BP's Thematic Timeline

4.1.2.1 EXPANDING THE 2-PIPELINE COMPANY

In the 1960s and 1970s, oil operations in the Middle East consisted of explorations and productions in remote areas at low cost. Whereas BP's business practice was cost efficient, unpredictable developments at a political level were the driving force for change. In the 1970s, when the world-wide oil industry suffered from the Middle East oil crisis, BPX was already in the process of establishing two major new oil production areas: one in America and one in Europe. These operations, which were technology driven, and primarily based onshore, were cost intensive, and there was thus a higher likelihood of a negative impact on the ecological environment. However, natural scientists and engineers were able to solve these technological challenges and since the 1980s, environmental issues have become part of the management agenda. The development of BPX's oil production since the 1960s can be subdivided into three stages, based on the defining characteristics of these periods:

- Stage 1: Cost efficient;
- Stage 2: Technology intensive;
- Stage 3: Social conflict affected.

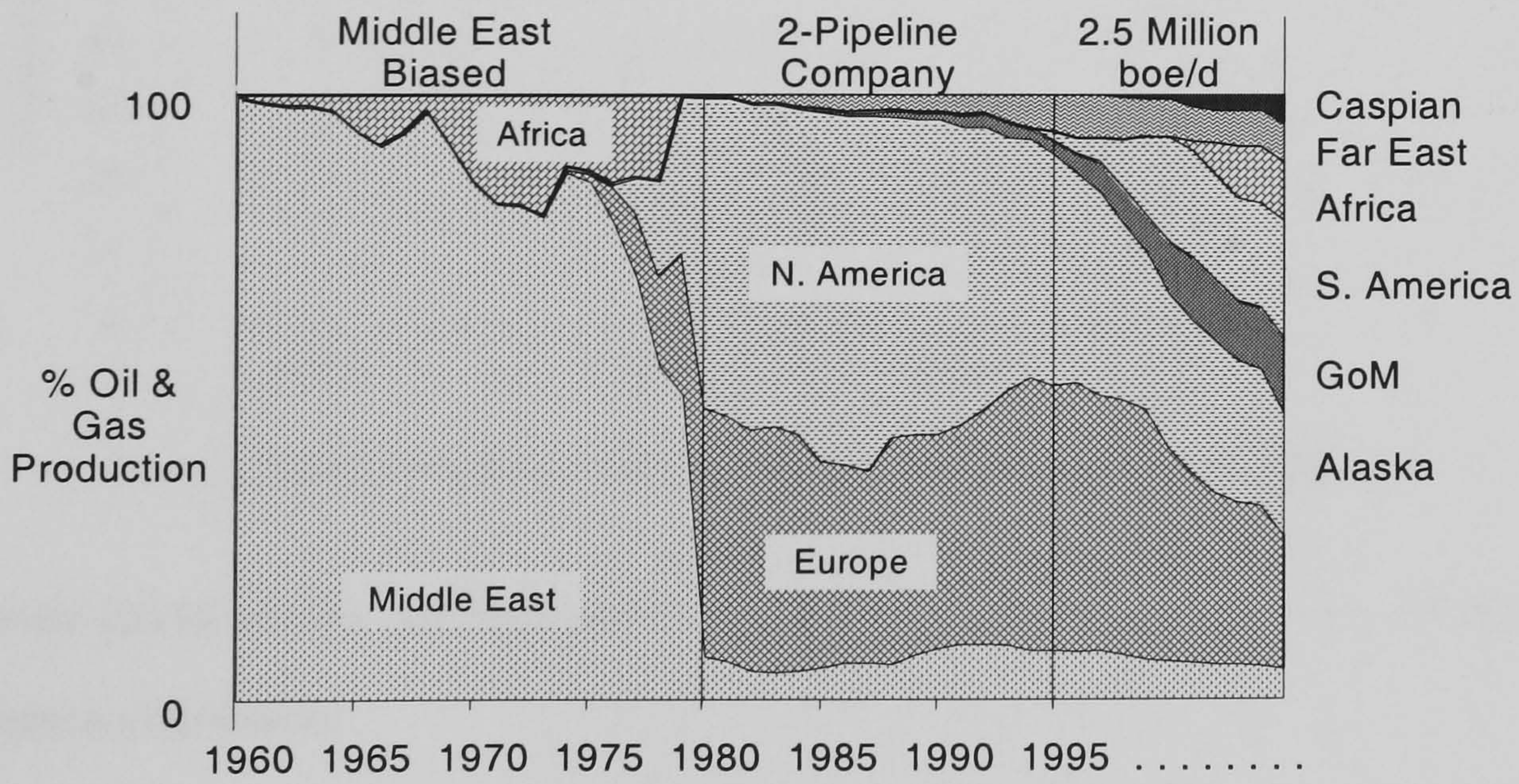


Figure 6 The Three Ages (Source: Doust, 1997)

In 1965, BPX made its first major oil discovery in the North Sea. A major offshore production in the UK sector began in 1982. Operating conditions, such as the need to drill many meters below sea level and to build oilrigs, necessitated intense technology. In Alaska, BPX was rewarded for ten years' exploration effort when, in 1969, it announced a major oil discovery. Towards the end of 1987, the world's first continuous commercial production from an offshore area in the Arctic was achieved. In addition to offering offshore operating conditions that were similar in nature to those in the North Sea, Alaska had extreme regional weather conditions that posed further technological challenges. The availability of new technology often influenced the success and failure of oil explorations.

BPX's operations in the North Sea and Alaska amounted to about 90 per cent of its total production on average. Hence, BPX was called '2-pipeline company'. Since then, the company entered new countries for oil- and gas-explorations. Although the Middle East owns the major proven oil reserves (676.9 thousand million barrels of oil in 1997) South and Central America emerged as a prospective area. For BPX, Colombia became an important oil exploration country. However, instead of technology, it was the nature of society itself that became a critical issue.

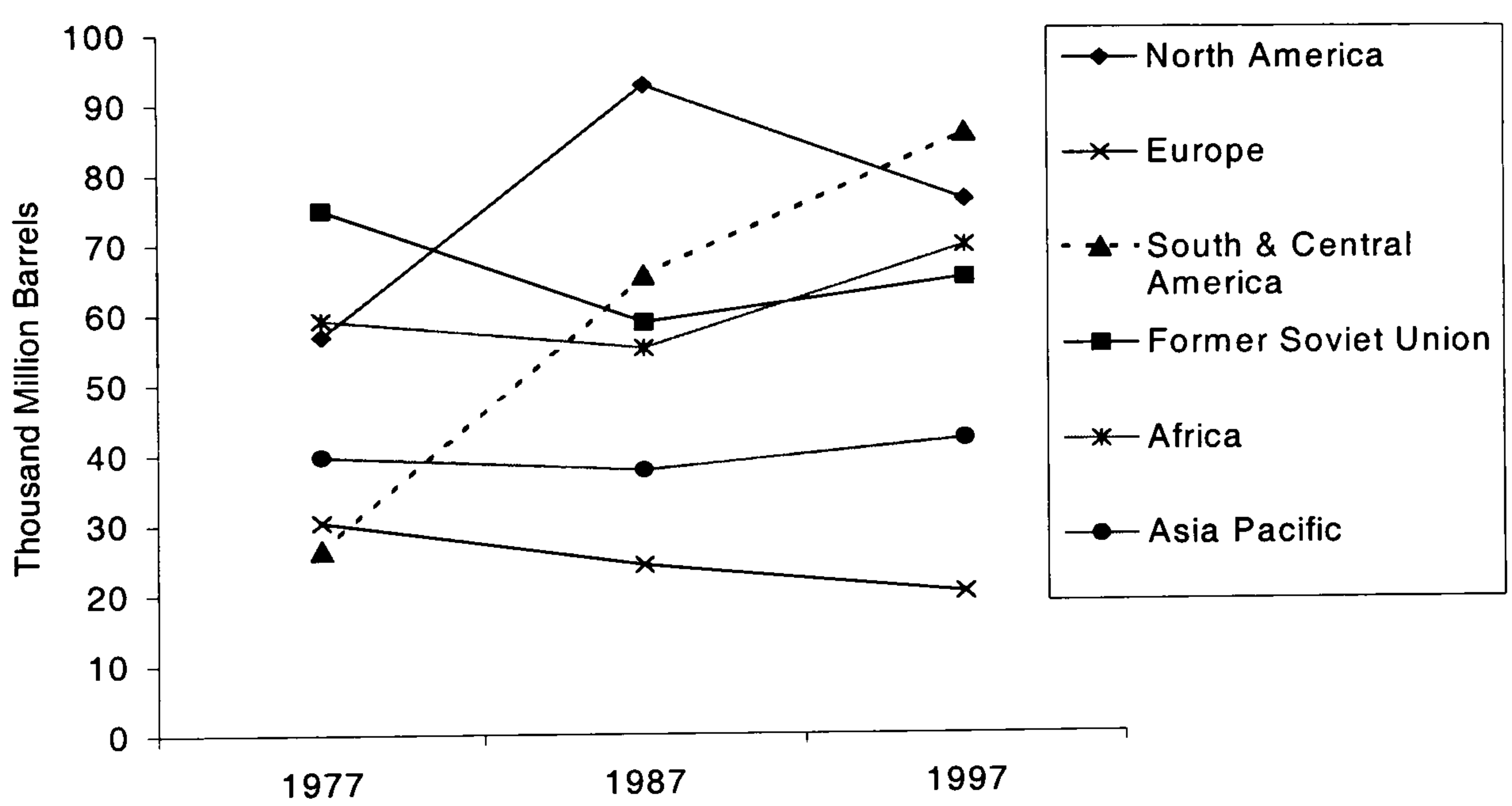


Figure 7 Proved Oil Reserves (Source: BP Statistical Review of World Energy, 1998)

BP's senior policy advisor summarised the company's development in terms of its strategic performance orientation:

> *[...] BP had major shifts in strategic performance orientation, especially over the last 20 years. Starting with purely cost cutting and net-present-value-orientation, moving to quality orientation and nowadays getting more and more green and social orientated.*

4.1.2.2 INVESTING IN A CONFLICT-RIDDEN SOCIETY

Colombia is situated in the north-eastern corner of South America. BPX had been interested in the country's oil prospects since January 1918 (Bamberg, 1994). Exploration was difficult because of the lack of roads, the nature of terrain and the shortage of labour. Nevertheless, according to a company survey, the country offered distinct possibilities with respect to oil development, albeit at considerable cost, financial and organisational.

Negotiations with the Government commenced in 1926. Hearn, the company director in charge of concessions, stated approvingly that Colombia was excellently situated as a complementary area to Iran, owing to its proximity to western markets in which Iranian oil suffered the competitive advantage of high transport costs compared with nearer sources of supply. However, Hearn's enthusiasm on that score was tempered by other considerations of a more political nature.

It was not until 1936 that the Colombian government passed a further petroleum legislation, Law 160, which effectively lifted legal restrictions that had stood in BPX's way. The matter was taken further when the company's geologist, Cox, visited Colombia in December 1937 and an exploration programme was planned. Just when the prospects of exploration in Colombia appeared to be brightening, the company was warned that any further foreign explorations liable to prejudice production in Iran were completely unacceptable. Geological work in Colombia was thus brought to a halt until the 1980s.

In 1986, BPX began a major oil and gas exploration programme in Colombia in the Andean foothills, some 125 kilometres to the north-east of the capital Bogota. The programme was rewarded by the discovery of the Cusiana oil field in 1991, the Cupiagua field in 1992, and the Volcanera gas field in 1994 (BP Annual Report, 1998). Between them, these represent the largest oil discoveries in the Western Hemisphere in the last 20 years. Oil production began from Cusiana field in 1994, and production rose to 150,000 barrels a day by 1995. The Colombian government granted BPX the licence to be the operator in the development of the oil fields in a joint venture partnership with the state oil company, Ecopetrol (59 per cent), Total and Triton. BPX's share was 19 per cent. 85 per cent of all revenues went to the Colombian government in royalties. The total production from all oil fields in 1999 was about

500,000 barrels a day (Economist, 24 October 1998). The company was also involved in constructing the Ocensa pipeline that transports the Cusiana and Cupiagua oil from Casanare to the port of Coveñas.

Guerrilla organisations in Colombia have several revenue streams, among them: narcotics, kidnapping and extortion. Companies refusing to pay for protection money suffered the consequences – as a result of the failure to pay, oil pipelines are routinely destroyed and people kidnapped or killed (Guardian, 15 August 1998). BP's policy on corruption is strict: the company refuses to engage in corrupt practices (BP Policy, 1993, 1998). BPX's operational and domestic areas for non-local workers are surrounded by barbed wire. The company has employed the services of the Colombian army and police and are advised by an organisation called Defence System Colombia (DSC), a subsidiary of the international Defence System Limited, which is used elsewhere in the World by many different companies, development agencies and NGOs. DSC has contributed to the training of military police in protecting BPX's operations. However, BPX's investment needed not only to be protected, but was ideally also seen as means of raising society's expectations as to the company's contribution to a higher quality of life.

4.1.2.3 Confronted with Raised Societal Expectations

Expectations as to BPX's ability to provide social support services and to act in a quasi-governmental role in Casanare were high. BPX and its partners designed a voluntary social investment plan, based on a continuous dialogue with the community and the regional authorities. Between 1992 and 1997, the company spent USD 27 million on social programmes, such as small business development, health education and local infrastructure, as well as devoting a lot of working time to strengthening local citizen groups in managing oil revenues effectively (Social Investment, 1998). Evaluations of BPX's effect on society were not part of the early social investment activities. Systematic Social Impact Assessments (SIA) were only made at a later stage.

BPX's operations generated royalties for Casanare. In 1995 and 1996, Cusiana yielded USD 180 million fiscal revenue for Casanare (Social Investment, 1998). In 1997, BPX directly employed 1,000 local people from Casanare and indirectly, nearly 4,000 as contract workers. Revenues from BPX's oil fields are expected to add more than 1 per cent per annum to Colombian GDP between 1997 and 2000.

Health, safety and environment performance are crucial to BPX's business in Colombia and elsewhere. It is one of BP's key assets in its international reputation as a company. Company's natural scientists and engineers prepared Environmental Impact Assessments (EIA) to evaluate the needed investment to achieve international environmental and safety standards. Until 1997, BPX invested USD 30 million in environmental protection, in addition to its public commitment to compliance not only with the Colombian government's environmental legislation but, also the company's own, high global standards (Doust, 1997). For all new projects, public hearings can to be organised, whereby the public could question BPX. BPX was part of a state-led committee that developed environmental standards and regulations for oil and gas-exploration operations (Ministero del Medio Ambiente, 1997).

In 1997, BP's CEO John Browne met Colombia's president Samper. Despite the fact that BPX was Colombia's guest, at the presidential meeting he raised the question of guerrilla and paramilitary activities that had negative effects on BPX's business and human rights in Colombia. The ELN, for instance, wanted all natural resources nationalised and to revise existing oil contracts. Their basic principle was the – usually foreign – companies pay all exploration costs, the oil, if any, to go 20 per cent to the state, 40 per cent to its oil company, Ecopetrol, 40 per cent to the foreigners. Fair enough? Not for the ELN. Oil prices? Sovereign management, in world markets. Foreign investment? Yes, if it brings technology and is linked to Colombian priorities. Foreign debt? Renegotiate it, said ELN and FARC alike, the two biggest Colombian guerrilla organisations (Guardian, 14 October 1998).

All oil companies face such risks. One way out might be to pay protection money to the guerrillas. However, BPX is determined to refuse this, and in consequence, relies on Colombia's armed forces and its own efforts. BPX's problems centre on security arrangements. Oil companies, by law, have to pay an official 'war tax', of USD 1.25 a barrel for protection. On top of this, in November 1995 BPX signed an agreement pledging a further USD 5.4 million to the army over three years. The deal brought accusations that BPX was forming a private army (Economist, 16 January 1999). BP's senior policy advisor said "the military is accused of human rights violations and BP condemns all abuses of human rights from whatever quarter. However, we suffer from guilt by association." The presence of a large security force breeds mistrust among the local community.

Social expectations were paramount. The society judged BPX on its contribution to the development of Casanare, the exploration and production of oil and gas fields in an effective and environmentally responsible manner. Additionally, these operations needed to generate royalties and taxes for producing regions. However, BPX was only laying the seeds for what the government and the community needed to lead. The company thought that it was acting like a good citizen should – paying tax and complying with the law.

4.1.2.4 Facing Accusations of Human Rights Abuses

In July 1995, a report was published by the Inter-institutional Commission on the human rights situation in Casanare, which had referred to BPX in only two out of its 25 recommendations. The first concerned an unfulfilled commitment to a community group and the second to damage to a forestry reserve. BPX welcomed the report, and being committed to addressing the two criticisms, thought no more of it (Inter-Institutional Commission Report, 1995). BP's former head of community affairs in London remembered the time after:

> *You can not solve a problem until there is one. The problem came really when some people decided to turn human rights issues against BP. The company denied everything [...] The problem risen when BP realised that denial would not do it.*

BP was truly shocked and angered, therefore, when following a visit to Colombia by Richard Howitt MEP in 1996, (which included a long meeting with BPX in Bogota but not a visit to Casanare itself) a report was presented to the European Parliament accusing BPX of human rights and environmental misdemeanours (Howitt, 1996). This was followed by a series of newspaper reports; some taking the accusations at face value (e.g., Observer, 20 October 1996) others a more balanced view (e.g., FT, 8 November 1996). Meanwhile, BPX denied every accusation. However, there was a demonstration outside BP's head office in London organised by 'The Coalition Against BP in Colombia', and disruption of other company activities. On 8 February 1997 came the Assignment Programme on BBC2, which implicitly accused BPX of collaborating with the army and paramilitary groups to kill people, damaging the environment and destroying a century old way of life in Casanare. Browne wrote in an internal email to BPX's employees that the "programme contained many inaccuracies, distortions, and was unbalanced. I have full confidence in the ethical conduct of our staff."

Published in April 1998, BP's Social Report 1997 describes the difficulties the company had operating in the Casanare region, where since 1991 it has exploited an oil find worth more than GBP 25 billion. The report, which promises that good and bad performance should be noted, fails to mention a new, critical investigation by Jose Castro Caycedo, the Colombian government's highly respected independent ombudsman, which BPX had asked for. His office is the one government department trusted by many local people to defend them against powerful interests. His inquiry was concluded in January 1998.

The report accepts that BPX addressed complaints after they were raised by the community, but concludes that the oil companies should "not wait for the intervention of the local community before it acts, but instead must demonstrate the desire not to cause environmental damage" (Public Prosecutor, 1998, p. 15). The ombudsman's official report details fines on BPX in view of serious environmental damage caused by 12 wells and two oil processing facilities during the period 1991-1997. BPX received the biggest fine in Colombian history (USD 125,000) for environmental damage at five oilrigs in 1994 (Guardian, 17 October 1998). Between 1997 and 1998 drilling by four BPX rigs was temporarily suspended for similar reasons. Meanwhile, BPX claims it has invested USD 360 million in environmental protection measures in Colombia since 1992 and that its aim is "to surpass statutory requirements" (BP HSE Fact, 1997).

The General Prosecutor's Human Rights Unit found no evidence to corroborate any of the accusations of human rights abuses including that of passing photographs to the army. Moreover, one of the individuals assumed to have been murdered was, in fact, found to be alive. BPX has welcomed the report, saying it has continued to have a constructive dialogue with the ombudsman.

Equally disturbing for BPX was criticism of its human rights records in Casanare in general. The US-based Human Rights Watch organisation wrote to BP's CEO saying the company "has not taken adequate steps to prevent abuses and to address those that have occurred" (HRW Report, 1998). Since 1994, at least seven people have been assassinated and others falsely imprisoned or harassed by the army for speaking out against the environmental excesses of the BPX-led oil boom in the area.

The media played a very important role in stimulating attention to BPX's accusation. The alleged misdemeanour from BPX in Colombia that the media concentrated on involved collusion with the Colombian military and suspected company activities that brought violence to Casanare. BPX could not simply publish the General Prosecutor's report. A way forward was to strategize corporate reputation.

4.1.2.5 STRATEGIZING CORPORATE REPUTATION

Since the early 1990s, BPX increasingly assessed the impact of social factors and conflict in order to understand the implications of their business in Casanare, and how they could work with others, including governments, communities, NGOs and the UN, to achieve a positive contribution and enhance corporate reputation.

In 1995 the Prince of Wales Business Leaders Forum and the World Bank were invited by BP to visit its operations in Colombia. The World Bank realised that there was a potential to work with the company to promote sustainable development in less developed countries. In the aftermath of human rights accusations, these kinds of relationships helped BP to restore its credibility. In 1997 the World Bank formed a group called Business Partners for Development. The aim of this was to establish a win-win relationship between business, civil society, and the state. BP was part of this group, and was involved in two projects in Casanare.

BPX's lobbyist towards sustainability was the Colombian Business Council for Sustainable Development (CECODES). BPX began to consult communities for social investment decisions and to work with local authorities that had influence over the spending of royalties. At a national and international level, BP started to talk to NGOs. In London, in 1997, the Inter-Agency Group, made up of various international NGOs, came together to start a dialogue with BP. In the same year, BP organised its first Social Forum; an international stakeholder conference held in London. The event was repeated in 1998 and is now part of BP's strategy to build and maintain its corporate reputation. The Social Forum focuses primarily on BP's policy, social impact and verified accounts (Social Forum, 1997).

Colombia's government provided BPX with the legal licence to operate. It is also the regulator of the country that provides the legal context for BPX's operations. To solve BPX's security issues in Casanare, the company negotiated a collaborative national armed forces agreement with the Colombian Ministry of Defence and Ecopetrol. The agreement was signed in January 1998 (National Armed Forces Agreement, 1998).

In 1997 BPX introduced its Strategic Plan for Reputation Management in Casanare. The mission of the reputation group was "to create favourable conditions in the external environment, enabling the company to meet its business goal, generate new business, and enhance the agreed corporate image in the national and international environment" (Strategic Plan for Reputation, 1997). Elements of the strategy document are a general policy for strategizing reputation, core strategies and the structure of the reputation group. The following five strategies permitted BPX to build up its reputation:

- Direct work with communities;
- Municipal level work;
- Departmental level work;
- Security and;
- Communication.

To achieve such objectives, and to deploy these strategies within the general policy framework for Casanare, a field reputation group was established with a team in Casanare and a team in Bogota. This group had one departmental manager, reporting to the Casanare manager, one staff member as communication adviser, and one group of professionals comprising three seniors and three juniors divided according to the three operating areas of BPX in Casanare. Line management was involved as much as possible. The Casanare field and the Bogota reputation team had an identical overall strategic objective: "BP as a partner of choice" (Strategic Plan for Reputation, 1997).

BP's headquarters had no explicit communication structure. Regional directors were directly subordinated to the MD who had responsibility for all regions and corporate policies. Communication functions were similar to those in Colombia, namely were external and community affairs, media and publications, investor relations, as well as HSE. Only recently was the community affairs manager renamed as social investment manager. This job title also implies his link to the investment department. Planning, legal, organisational structure and technology were first linked to chief of personell and then to the MD for regions and policies. However, the London office initiated the review of BP's policy that provides the corridor in which BPX in Colombia can operate.

4.1.2.6 Reviewing Corporate Policy

BP's policy on business conduct must be complied with at all times by all those employed by or acting for the company. BP's dealings and relationships should always be such that BP's international reputation would not be damaged if the details were to become public knowledge. In 1993, BP set out detailed guidance on the application of the Policy on Business Conduct in the BP Code of Business Conduct which was available in all locations through the audit function, from which guidance could also be sought. This policy focused primarily on the behaviour of BP's employees and contractors. The main guidance was on ethical behaviour and compliance of laws and regulations (BP Policy, 1993).

Policies for getting HSE right have existed in BP's practice since the late 1980s. However, it is only since 1995 that BP began to adopt the principle of sustainable development. In 1994, BP published its first Community Involvement Report, which included a community relations policy (BP in the Community, 1994). BP states that it aims for "reputation as a good neighbour and corporate citizen wherever [BP] operates". The emphasis of such a policy was on education, the environment and community development. At this time, BP's community affairs concentrated on specific local issues rather than on BP's wider social responsibility and on links of local issues.

In 1997, the company developed a new policy, published in 1998 and entitled "What we stand for ..." (BP Policy, 1998). BP's mission was to establish a new BP brand – a strong dynamic brand captured in the theme Positive Energy. Linked with this are new technologies and new markets but also BP's values – consideration of human rights, ethical behaviour, environmental stewardship, economic growth and social responsibility. Especially within unstable economies and weak democracies like Colombia it became very important for BP to integrate the idea of sustainable development – the balance of economic progress, environmental concerns and social development.

BP learned "that a company must be an integral part of the society in which it operates; that it must fulfil a number of different expectations – financial, social and environmental". The policy focused on four areas:

- Ethical conduct;
- Employees and relationships;
- Health, safety and environment and;
- Finance and control.

In 1997, BP also reviewed its Social Policy. The company saw active support for the people and communities where they operated as a fundamental part of their contribution, an expression of belonging, but also as a wider responsibility (BP Amoco Social Report, 1998).

In August 1998, the oil industry witnessed the birth of a new super-major – BP Amoco plc – to form an energy business for the next millennium. The joining of BP and the American oil company Amoco created Britain's biggest company, worth USD 110 billion, propelling it into the top three global oil majors, and forming one of the strongest, most competitive energy and petrochemical groups in the world. After only 100 days, the two companies joined their global operations together, with a 60 per cent equity share to BP and 40 per cent to Amoco (BP today, 1998). However, Amoco has a record of environmental damages and accusations of human rights abuses (Guardian, 17 October 1998).

The social challenge is to move the merger towards a socially responsible multinational company. "Policies are easy to state, but their ultimate expression lies in the way we behave", says Browne (1997) at a presentation to the Council on Foreign Relations. To evaluate success and failure of responsible behaviour – integrated policy – BP began to develop an approach for social and environmental accountability.

4.1.2.7 Accounting for Social and Environmental Impact

The world's largest 500 industrial corporations, which employ just 0.05 per cent of the world's population, control 25 per cent of the world's economic output (Browne, 1997). "Social responsibility is an integral part of economic power, because it is central to the fundamental business drive of performance," said Brown at the annual conference of Business for Social Responsibility (1998). MORI asked the question: "Thinking about large companies, which statement comes closest to your own opinion about companies and their responsibilities?" As the answers show, society wants to see business' contribution to community as a priority. Based on this and on its own experiences, in 1996, BP saw the need to integrate social and environmental accountability.

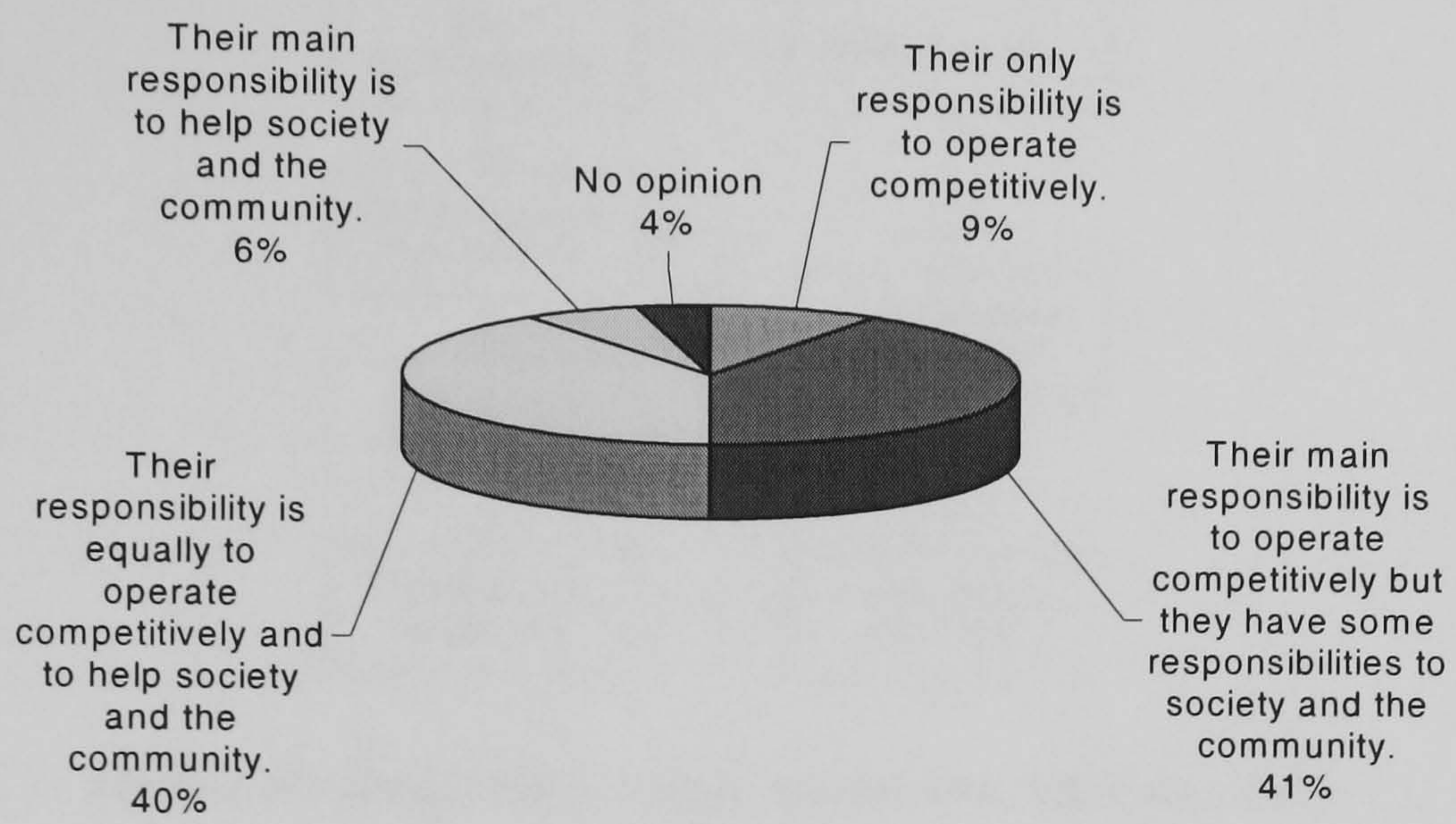


Figure 8 Thinking about Large Companies (Source: MORI, 1996)

One of the first steps towards measuring social impact was undertaken in 1994. This was essentially a value-assessing matrix, which helped to visualise BP's contribution to society (Smithers & Marsden, 1994). In 1995, BPX in Colombia commissioned a national institution to develop an economic and social account system for Casanare. Although it was very detailed, its complexity prevented it from applying the system internally and for communication purpose (CRECE, 1996). At this time, BPX measured its contribution to society in terms of social investment, subdivided by community development, education, environment and arts.

In terms of HSE performance, BPX reported on safety, hydrocarbon emissions to air, discharges to water, oil spills, environmental costs, and fines and penalties. For HSE management, BPX established an Operations Integrity Assurance System (OIAS). Here, assurance may be undertook as the process whereby Business Unit and Support Unit Managers confirm that processes are in place and working effectively in order to manage the key success factors for, and major risks to, sustainable business performance. An Ethics and Environment Assurance Committee reviews policies and processes, which bear upon the group's reputation and its community, customer, employee, HSE and other relationships. Assurance is a continuous review process, involving regular dialogues, which are documented in a formal annual report.

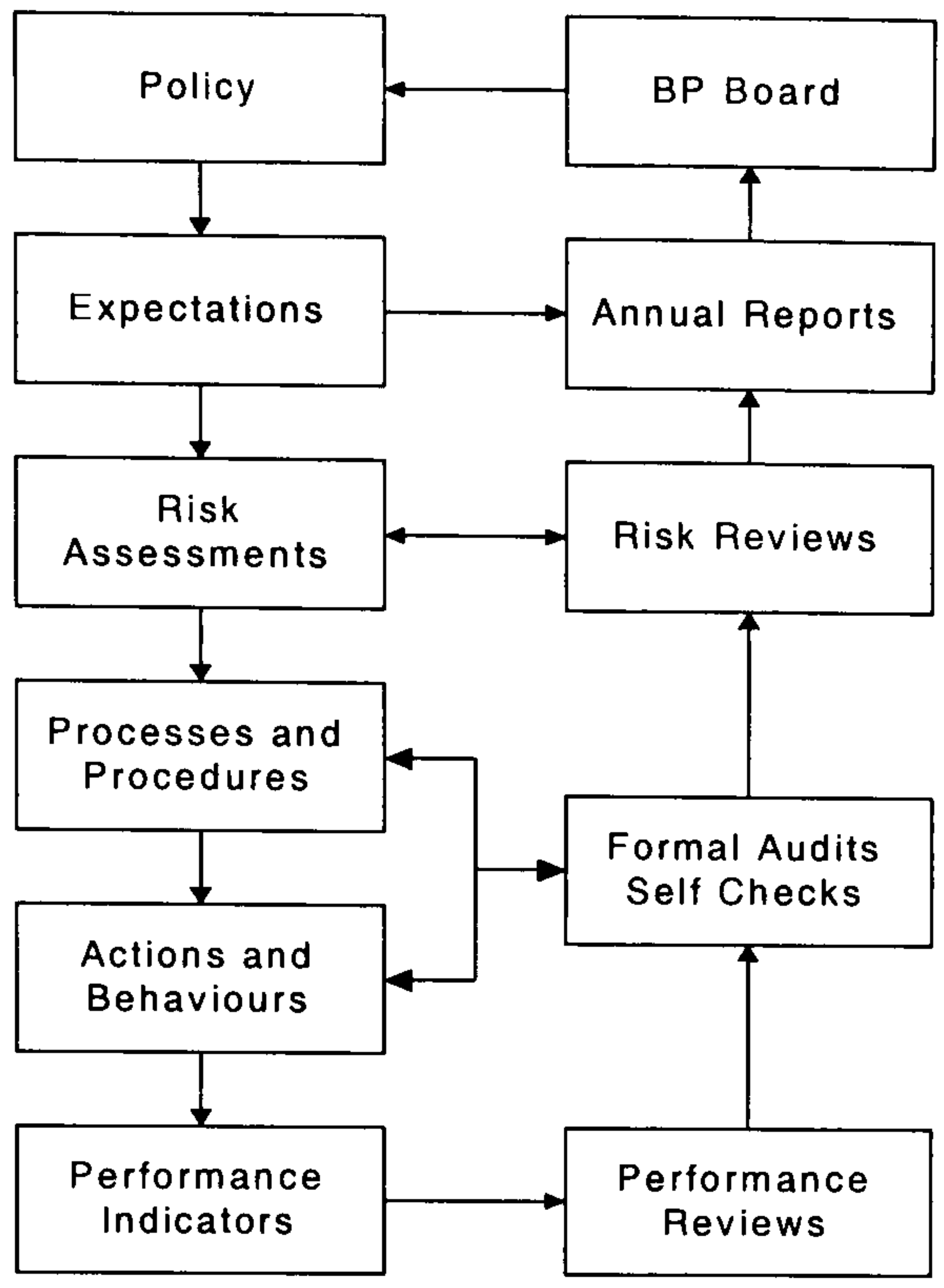


Figure 9 BPX Group HSE Assurance (Source: BPX HSE Policy, 1997)

Since 1997, BPX has developed a systematic approach in order to measure social impact effectively, the procedure consists of the identification of norms for organisational behaviour, social impact measures, and areas for social contributions. Under social impact measurement, BPX summarises social impact assessment, peer review of social impact issues, social performance reporting, and social accounting and auditing. HSE, social, and financial performance make up the 'triple bottom line' – the underlying idea of sustainable development. In 1998, BPX first published social and HSE performance in a joint annual report.

4.1.3 *Business's Social Integration Features*

BP itself and its stakeholders asked the question: How should a company behave when integrating business in a less developed society? After BPX in Colombia was accused of human rights abuses and environmental damages, the question of whether BPX's way of minimising social risk and maximising social contribution is the right one became critical. However, BP decided to act as a good citizen. Based on its policy, BPX's operation was compliance directed. As a guest in Colombia, the observance of law and order was of paramount importance. Additionally, BPX's set course was responsibility orientated. The company recognised that because it had initiated tremendous social change in a less developed area, the resulting social risk generated by its business led to a corresponding duty to contribute as positively as possible to a sustainable development of the society in which the company operated.

Changes within society instigated by BPX in Casanare required social investment. Based on its set course, BP recognised that social problems both affected and were affected by its business. To cope with the challenge to mitigate induced social risk, BPX developed social investment projects able to guide its actions towards a positive contribution to Casanare's social development. Social investment projects were organised like other investment projects, but did not always aim to achieve efficiency and effectiveness. In this context, stakeholder consultation became crucial for selecting, planning, integrating and assessing social investments, and therefore co-ordinating company's contribution to Casanare's social development. BPX's expertise was technology led rather than social issue based; therefore stakeholder competence was needed. Social development together with stakeholder consultation became the driving connecting processes for BPX's integration into Casanare.

The licence to operate (LTO) can be given to a company and can be taken away. The attainment and maintenance of a LTO depends on the extent to which BPX contributes positively and negatively to social development. BPX's connecting processes for managing induced social risk provided the company with a LTO. This licence is a crucial resource for long-term survival. BPX's LTO in Casanare can be revoked if BPX were to wilfully abuse human rights. Also, if BPX were to have negative social and environmental records, investors could withdraw their LTO by divesting in BP. Only in an extreme case could a lost LTO drive a company out of business, but it will always have a negative impact on firm's performance.

BP was accountable to its stakeholders for the contribution to the society in which it established its business. After facing accusations of human rights abuses and environmental damages, BP had to recognise that it did not, as it thought, meet societies' expectations. Given its strategic endeavour to restore its reputation, the company discovered that stakeholders assessed BP in terms of its social investment. BP saw that its social development endeavours could enhance its reputation. Therefore, strategizing reputation was for BP also the management of its LTO. BPX's licence to operate and its reputation are interlinked components of its social capital and resources generated by BPX's social integration process.

The following table summarises business social integration features under three headings:

Set Course	Connecting Processes	Social Capital
▪ Compliance Directed	▪ Social Development	▪ Licence to Operate
▪ Responsibility Orientated	▪ Stakeholder Consultation	▪ Reputation

Table 6 Business's Social Integration Features

4.2 ENGAGING NGOS IN POLICY DIALOGUE

4.2.1 *BP and Human Rights Agents*

"I think the first way to think of it is to throw a stone in a pond and see how that creates a set of ripples. A lot depends also on the size of the pond and the stone and whether or not the pond is indefinite or has got boundaries", said BP's group director regional Latin America. When BPX began to integrate its business into Casanare, the company immediately created all sorts of ripples – political, social, economical and environmental. The pond in Casanare was very small and BPX's stone very big – this raises the question of who thought about human rights?

In 1996, when BPX was accused of human rights abuses, the company thought that it could manage all its induced ripples. However, at this time, human rights was not regarded specifically as a business issue, because it has not been an issue that BP was pressured to think of. The trouble for BPX emerged from doing business in a potential 'war zone'. NGOs – human rights agents – have, indeed, pointed out that an oil company may be unable to behave ethically in Colombia today for the following reasons (Independent, 1997):

- All oil companies in Colombia are obliged to pay war tax to the Colombian government, which is then channelled to the military;
- Colombian military personnel are responsible for systematic human rights abuse, including arbitrary killings of civilians and torture. This has been documented by Amnesty International and UN Special Rapporteurs;
- Colombia has one of the worst human rights records in the Western hemisphere.

NGOs recognised that BPX took its social responsibility seriously. However, they also spoke out against the way in which the company was 'pouring money into the coffers of an army with blood on its hands'. Human rights agents suggested that the only way BPX could remove this contradiction and stay in business in Colombia was to put pressure on the Colombian government to improve its appalling human rights records. BPX also had to change its own way of doing business in Casanare. The company needed to accept that it could not continue to do business in Colombia without making human rights a business issue. BPX realised that not considering human rights as a business issue could mean the loss of its LTO.

Managers lacked knowledge of human rights, whether in a business context or in terms of management. BP's lack of competence in the field of human rights and the social context of Casanare as well as the network and the public attention human rights agents had left the company with no alternative to the decision to engage with NGOs. However, NGOs were as suspicious about companies as these were of NGOs. Until then, the two were often throwing stones at each other. There was a fear on both sides of being misused. Local NGOs in Casanare could not work with BPX directly because guerrillas and paramilitaries put too much pressure on them. Human Rights Watch and Amnesty International were the first international NGOs to talk to BP about human rights in Colombia, but mainly functioned as 'watch dogs'.

Who would have thought that BP could sit at a table with human rights agents to discuss its policy and practice? BP had to be able to mange the situation in Colombia and integrate human rights with business matters. NGOs wanted to enhance human rights, especially in less developed countries like Colombia that were influenced by transnational companies. In 1997, the Inter-Agency Group (IAG), a group of development NGOs came together to discuss BP's business policy and human rights in Colombia. Whereas the company wanted to engage the NGOs in actions, the development agencies wanted to focus on a human rights standards for oil companies in less developed countries. However there was a common ground. "It became important to invest in people, instead of in things, because people are more dynamic and people can activate help to build the future", said a BP international policy advisor. A constructive policy dialogue developed between BP and the IAG – a partnership to improve and integrate human rights into business policy and practice.

4.2.2 *From Accusations to Conversations*

Because of various conflicting antecedents, BP and NGOs hardly talked to each other unless they saw each other in the courtrooms. In the 1980s, BP began to engage with environmentalists. Prior to 1996, BP had few contacts with NGOs aimed at conversations about human rights. After the company faced accusations of human rights abuses and environmental damage caused by its operations in Casanare, it was forced to do more. A new engagement process started when BP began to talk to Amnesty International and Human Rights Watch. In 1996 and 1997, BP and NGOs with human rights competence approached each other on various levels. In 1997 the IAG was set-up. This established a basis for engaging in constructive, continuous dialogue with a variety of human rights agents. 1997 and 1998 was the beginning of the dialogue that enabled both partners to learn more about the possibilities of dialogue. After integration, it was crucial for both sides to ensure that policy dialogue would have a positive influence on the way in which BPX does business in Colombia, as well as on how NGOs perceive this endeavour and communicate it to their constituencies.

The partnership between BP and the IAG is a business-NGO policy dialogue. Although there was a common agenda item – human rights improvement, ideas about ways of achieving it differed. The following five sections describe the partnership building process in detail.

4.2.2.1 LOBBING BRICKS AT EACH OTHER

Although BP's senior policy advisor claims that engagement "with environmental NGOs started some time ago in the 1980s", it was only in 1997 that BP and Greenpeace came to blows over oil operations in the North Sea and environmental safety. However, at the same time BPX Scotland set up round tables to discuss primarily BPX's environmental impact. Greenpeace was invited, but did not participate. BP's regional director Latin America distinguishes between two NGO polarities: "On one end are NGOs that only throw stones whereas on the other end are NGOs that say: We are prepared to work with you." BP focused on the second group of NGOs to find solutions to environmental, and later, social challenges. The head of CEP Europe believed, "working with NGOs is buying legitimacy."

At the beginning of the 1990s, when BPX began its operations in Colombia, it was not held in the highest esteem, and was not thought to deal in a socially responsible way. Indeed, BPX was viewed with suspicion. Nevertheless, it was also the engine of wealth creation. Investments in Colombia are at very high risk because of social instability. This was enhanced by the conflict between BP and NGOs that occurred after BP realised that merely denying the accusations of human rights abuses would not solve the problem. Relationship building became of crucial importance to BPX's operations. BP's former head of community affairs said:

> *We had to make sure that we have the relationships so that we know who to talk to immediately after a likely crisis to give them your side of the story and hopefully to get them arguing on our behalf in other places.*

BP benefited by being open with NGOs about the nature of its operations in Colombia, the commercial structure, relationships with authorities, and where the company might play a role in promoting peace and security and stability. BP found themselves in a role close to that of honest broker between a government and the international community. It was essential to have a full understanding of the weight of feeling held by all sides in these issues (Barrett, 1998).

"Few types of partnership are as challenging for business as those some companies are beginning to develop with their erstwhile enemies, the NGOs", says John Elkington, chairman of SustAinability in BP's employees' magazine Shield (1998). "These strange alliances will demand extraordinary vision and new political and management skills from people who in the past have found it much easier to simply lob bricks at each other." In 1996, BP and NGOs began to approach each other to talk about human rights in Colombia.

4.2.2.2 Approaching at Various Levels

Human Rights Watch, an American based NGO, approached BPX in Colombia in the early 1990s. They regularly reported on Colombia's human rights records, and expected a positive contribution from BPX. However, their field contacts reported the opposite. BPX and Human Rights Watch had spasmodic conversations where these critical points were discussed and continuously controlled to report any changes. Human Rights Watch's emphasis was not on

BPX's operation in particular, but rather on the country in general. After BPX faced accusations of human rights abuses, the NGO sent a letter to BP's CEO and criticised BPX's business practice on the basis of their data. Human Rights Watch was never anything other than an informative 'watch dog'. The contacts between BP and the NGO were mainly based on personal relationships.

In 1991 Amnesty International established its Business Group, a part of the NGO that aimed to work with business on human rights. In the early 1990s, the group sent a letter to BP asking for conversation about BPX's operations in less developed societies and the relevance of human rights consideration. The following talks were sporadic, and not directly linked to any specific business from BPX. However, Sir Geoffrey Chandler, head of the Amnesty International Business Group, predicted that it "is vital to company's achieving objectives. Its reputation is today an important part of future profitability." Amnesty International developed human rights guidelines for multinational companies. The conversations continued primarily with BP's headquarters and managers that knew the members involved in Amnesty International or were members of the NGO.

Since the early 1990s, BP's MD for policy and politics was involved with NGOs such as Greenpeace, Oxfam and WWF, at director level. The strategic conversations were thought to provide a corridor for actions at the next management level and below. BP's MD explained the strategic necessity of partnerships with NGOs:

> *The other party has skills you don't and you don't wish to have or you would be very inefficient to duplicate these skills. They also have attitudes and sensitivities that you don't and you learn enormous things if you are really listening to this. They also have connections and relationships that you don't. If they are prepared to share this with you or if they contribute it for your benefit then that is an advantage.*

At a very early stage in the integration of its business in Casanare, BPX made an effort to involve local NGOs because of their specific insights into Casanare's social context. However, local NGOs were less resourceful, and more critical, under the threat of guerrillas and paramilitaries. This made it nearly impossible for them to engage with the company. To raise their voice and not to dissimulate problems, international NGOs, on behalf of local NGOs, campaigned for a responsible and sustainable business practice of BPX in Casanare.

It was not until BPX faced accusations of human rights abuses that the company searched for NGO contacts at international level to tackle the problems in Colombia. In the beginning, BP saw the accusations as a problem that was made up, and not as one that was instigated by its business practice. Later, BP searched for the source of criticism. There were newspaper articles and other publications. BP's senior policy advisor said, "we phoned the authors and asked for a meeting. That was the beginning of our conversations with international development NGOs about human rights in Colombia and our business practice."

4.2.2.3 COMING TOGETHER FOR DISCUSSIONS

In March 1996, a British foundation approached a development NGO to do some work on BPX in Colombia. At this time, BP approached Save the Children Fund and offered some money for a project in Nigeria. The company already worked with the NGO in Vietnam in the early 1990s in a development project. This time, Save the Children Fund thought that it needed some backup from other agencies. Oxfam's field office in Casanare was also interested in doing some more work about BPX in Colombia. Consequently, Oxfam gave priority to undertaking particular case study, so as to do much more work on corporate responsibility in extractive companies. A member of a development NGO remembered BP's strategy:

> *They did not sit down and think who would be the right NGO for Colombia. There were already some NGOs that looked into this. They only contacted me when I had a newspaper article published. As soon as this one came out they rung and said we want to meet. They wanted to meet me alone but I said that I want to meet them only with the other NGOs that deal with Colombia.*

In 1997 the NGOs, CAFOD, Christian Aid, CIIR, Oxfam and Save the Children, came together to form the Inter-Agency Group (IAG), that then engaged in discussions with BP on the impact of the company's operations is Colombia, and aimed to develop human rights guidelines. Amnesty International did not join the IAG because they considered their work as parallel to the work of the development NGOs. Nor did they want to institutionalise their engagement with BP and become overtly focused on Colombia.

The dialogue between BP and the IAG aimed at getting the company to accept responsibility for the full impact of its operations on people's lives and the environment, as a necessary prerequisite to ensure that BPX's actions are beneficial at a local and at a national level. By bringing experience to the discussion with BP, IAG believed it to be possible to bring about improvements to the less developed society of Casanare. Discussions with BP were based on information received by IAG from their staff in Colombia, partner organisations and members of the affected communities in Colombia's Casanare region. BP had a slightly different strategy. Its senior policy advisor expressed company's intention thus:

> *Where I want to move the relationship to is from negative questioning to positive contribution. I want to get them involved because then they are part of it. They would get accused of things we were accused of.*

The IAG sent out conditions that BP was to meet and established then basis for conversation. This included a stated code of practice on business ethics and clearly identified responsibilities for both senior and middle management for the monitoring and implementation of any commitment. None of the NGOs within the IAG accepted BP money. An advisor to BP's board of directors elaborated that both BP's and the IAG condition for partnership met in a "context of suspicion, scrutiny is a completely new phenomenon – important to both NGOs and international business." An external environmental advisor to BP said that one "can not just get partners when it suits you."

The dialogue between BP and the IAG constituted a very small part of the NGOs' work in Colombia. Through their programmes in Colombia, containing advocacy, human rights, development and humanitarian aid components, members of the IAG sought to address property and suffering, as well as challenge their causes. The NGOs have been working in Colombia for decades with people from all walks of life. Because of this knowledge and competence, BP considered the IAG as a valuable partner to discuss policy and practice issues for its business in Colombia, and for wider implications.

4.2.2.4 TALKING ABOUT POLICY ISSUES

> *Once BP started engaging, it became challenged by the NGOs who that said: 'Now you realised that you are part of the problem, even if you do not want to be, now you are saying to us you want to be part of the solution. Part of the solution means to tell the government to change.' But you cannot do this because you need their licence. BP had a three-stage model: from denial, to engagement, to activism.*

This is how BP's former head of community affairs saw the development of conversations with NGOs in BP in general. According to a company's senior policy advisor, the dialogue between BP and the IAG "moved from direct allegations against BP into whether a company should be there at all." BP tried to involve the IAG in problem solving, so that they would experience the situation from company perspective. However, when BP's senior policy advisor "asked Oxfam if they would like to manage BPX's community affairs in Colombia", they refused. The IAG was concerned at being associated with an oil company. BP believed that because of their ideology, NGOs had a general problem with the idea of partnership. Although this did not cause problems, it made dialogue more difficult. A BPX external affairs manager said that the partnership "was really only at a level of discussing. We talked about big issues together. Mainly it was about principles. It was not about doing things."
The IAG saw the dialogue moving much more towards a discussion about the development of Casanare and why generated risk was predictable. They decided to come up with some sort of outline of good practice, in the promotion of economic, cultural and social rights. The NGOs continued talking to other companies. They tried to hold their own agenda, which was not to help BP or any other company. In this context it became more decisive whether the IAG would disseminate their knowledge to BP or not. An explicit decision was never made on this question but knowledge sharing became a practice of the policy dialogue.

The discussions at the meetings were open, but did not lack tensions. Oxfam, for instance, was persistent in its request for a memorandum of understanding that set the rules for the partnership. However, this existed only verbally, not in a written form. BP and the IAG met at least every second months but also at other meetings, such as conferences or workshops. There was no formal timetable for policy dialogue. The partners emailed each other, phoned or wrote letters. From the IAG, the same people were involved in the dialogue. BP had a core team at its London office co-ordinating BP's partnering activities and bringing managers in and out of the dialogue as needed for specific issues.

The policy dialogue meetings were structured and had an agenda set by the IAG, to which all dialogue partners had to agree prior to the meeting. The IAG always kept records of meetings that were conducted by one of its members. The only specific rule for the meetings and any outcomes was confidentiality. The IAG was concerned with this because there was a potential threat from guerrillas and paramilitaries to people that talked to, or were seen as associated with, BP.

To protect staff and partners in Colombia the circulation list of the minutes of meetings was limited to the participants, staff in Colombia and key partners of the IAG. A member of a participating NGO said: "Much of the discussions have been undertaken at the level of policy advisors." IAG staff and partners in Bogota met with company staff in Colombia. Senior NGO staff who met with the BPX president in Bogota and BP director and senior policy staff in London monitored the process. BP's policy advisor for Latin America summarised the partnership agreement:

> *We don't have any formalised agenda or rules for meetings. We have not written anything down. We have always agreed that the point of the meeting is to share information with each other and then not to show it more widely. We also have an agreement not to use the relationship for publicity reasons.*

Although there were a few slips, BP and the IAG developed a constructive way of talking about their concerns. Both partners were on the way to achieving their objectives.

4.2.2.5 Reviewing Discussion Influence

"It was not a PR exercise but it has something to do with reputation management", said a BPX external affairs manager. "I think the more you interact with the NGO world the more you start to understand them. You learn what they do and what they are capable of doing." BP saw some of them as useful to be confronted with. These were the campaigners. Others were seen as partners for managing BPX's social investment. However, BP's policy advisor for Latin America reviewed that – "external advisors – one can not really speak that out. NGOs could feel exploited." A BPX external affairs manager considered relationships with

NGOs more like a personal network. The strategy of BP was to work in partnership in any area, with the best people in that field, whether it be technology or development. As far as policy dialogue with the IAG was concerned, BP's senior policy advisor felt that "BP comes out of meetings and asks what are the actions, what do you do and what do we do? That is all that we need to know." He further concluded "if they do not want to work with us, we will do it on our own."

The initial aim of the IAG was to seek concrete evidence of actions within the company that demonstrated that human rights and development concerns were, indeed, part of BP's stated agenda. A group member noted that they " were pleased that over the period of dialogue there was some evidence that BP acted on these issues." The next aim of the IAG was to empower community organisations in Casanare in their dealings with BPX, and to encourage the company to get detailed advice from human rights organisations.

The third, key aim for the NGOs of the IAG was to see BPX undertake concrete steps in defence of human rights in Casanare. This was primarily achieved by raising individual cases to the company and by promoting dialogue with international human rights organisations. A NGO policy advisor said, "there is still a great deal to be done in this area by the company." The group comment on the achievement and continuation of the policy dialogue with BPX was that "while the IAG consider that the dialogue is contributing to bringing about tangible improvements in the lives of poor people, the IAG will continue to talk to the company" (IAG, 1998). Referring to the way in which the group had dialogue with BP, one member of its members said that they "are not working with BP but you will get a different answer depending on who you talk to in the IAG. I am not convinced that capitalism is a model that we should operate in. We worked on BP."

The IAG also thought, "the internal structure of BP is a weakness", as one of its members criticised. Policy and practice were seen as not connected enough. "We are good at the top but we need to transfer it to the base line", said BP's regional director for Latin America. This was also recognised at BPX in Colombia as its former president pointed out:

> *Sometimes they sit in the corporate centre and develop a policy and the subsidiaries have to integrate it. A head office can not properly assess the issues from the ground.*

However, BP's MD for policy and politics concluded that BP "learned that you can not solve complex problems a priori". Colombia challenged BP with a social conflict-ridden society that had different values and a different way of life, as a BPX legal advisor, a native Colombian summarised:

> *We do not have the values from Europe. Time does not matter. You cannot have a good partnership if you forget to ask people about their family and refuse to have a cup of coffee with them.*

4.2.3 Business-NGO Policy Dialogue Features

The business-NGO policy dialogue between BP and the IAG was driven by the accusations of human rights abuses that BPX faced in Colombia in 1996. BP did not previously consider human rights as a business issue, and was now forced to implement it into its policy and practice. However, BP was not the only organisation interested in human rights in Colombia. National and international NGOs were already observing Colombia's human rights records and campaigning for ways to improve them. Through media and direct contacts, BP found out which NGO was concerned with human rights in Colombia. Since NGOs expected multinational companies to contribute to the amelioration of human rights in this socially unstable country, BP and NGOs had a joint interest in improving the human rights records of Colombia and in particular in BPX's operating environment. Because BP did not understand the situation and the associated risks that it created for human rights, it needed the IAG to gain this understanding. In return, the IAG required knowledge from BP to accomplish its aim of developing human rights guidelines for the excavation industry in Colombia. Therefore, the purpose of the partnership was a joint interest in human rights and the acquisition of each other's knowledge to achieve distinguishing objectives.

The reason why development NGOs congregated into the IAG was to support each other in the conversation process with BP. The IAG criticised BP and at least parts of it were not convinced that capitalism was the right way forward. Moreover, NGOs are aware of the power that companies have and often apply. BP was no exception to this. Based on these circumstances together with assumed neglected human rights, the IAG was very suspicious about BP and its offer for conversations about the conflicting issues. NGOs considered the IAG as an assurance of their involvement with BP. BP on the other hand, had experiences where NGOs accused the company of not acting responsibly. According to BP's understanding there were sometimes no grounded reasons, other than ideological. BP engaged with various NGOs and on various levels to get assurance for the case of accusations. Therefore, both partners established assurance as a base of the covenant. A memorandum of understanding complemented this. The content of it was the way and the context in which conversations would happen. The informal agreement developed out of the partnering practice as well as experiences but was never written down.

Human rights accusations, of course, had a negative influence on BP's reputation. Although oil is not a commodity good, the company has a very strong brand identity. Not only were BP's employees deeply hurt by the fact that they might work for a company that harmed human rights but other stakeholders also put pressure on the company. The accusations that BP faced were initiated as well as driven and enforced by the media. NGOs were recognised as opinion leaders and fighters for human rights and responsible development. BP had to accept its negative and NGOs' positive reputation as the power base of the partnership. The IAG saw that it was unable to achieve its initial objective. However, they by the same token, were unwilling to accept BP's offer to become more specific about BPX's practice. The company could not convince the NGOs to become involved in a specific project in Casanare. If this situation remains unchanged, and the reputation becomes balanced again, there are indications that BP will not continue this partnership in the way they did. Consequently, that leads to the conclusion that there is an incident driven power balance between the company and the IAG with reputation as a power base.

When BP approached development NGOs to talk with them about human rights, the direction of these conversations was unpredictable. The partners, on both sides, had different expectations and objectives for this dialogue. They did not know what one could expect as an outcome of this engagement, although there were set objectives on both sides. At the beginning, it was not clear that the dialogue would become institutionalised. The partners did not have a plan for the development of the conversations. The only thing that they were sure about was that they wanted a joint positive contribution to human rights in Colombia. No serious conflicts between BP and the IAG interrupted the partnership. The evolution of the business-NGO policy dialogue was premised on the notion of an emerging development. A permanent adaptation process drove actions and therefore the evolution of the partnership. Both partners were open and saw it as a purpose of the dialogue to acquire each other's knowledge. If unpredictable, the development of the partnership was chaotic. Permanent adaptation to the changes in partnership was a precondition for a sustainable evolution since it was a reactive development.

The following table summarises the business-NGO policy dialogue features:

Purpose	Covenant	Power	Evolution
▪ Human Rights Improvement ▪ Acquisition of Knowledge	▪ Assurance Based ▪ Memo of Understanding	▪ Reputation as Power Base ▪ Incident Driven Power Balance	▪ Incremental Development ▪ Permanent Adaptation

Table 7 Business-NGO Policy Dialogue Features

4.3 COMMITTING TO COMMUNITY DEVELOPMENT

4.3.1 BPX and its Community Responsibilities

In 1987, BPX began exploring for oil in a remote part of Colombia, which was to become the Department of Casanare in 1991. The company consequently invested in Colombia's poorest region. Governmental capacity for planning, managing finances and maintaining law and order was very weak. Both educational attainment and lifestyle ~~fell~~ was below the national average. Yet within ten years, Casanare's oil-related royalty income exceeded that of any other department.

Three communities were directly affected by BPX's operations. Two of them were near to its oil fields and the third one next to the oil pipeline. The specific social issues were varied but the nature of them was the same. Almost immediately, the expectation of economic opportunities resulted in large-scale immigration and this in turn led to in social impact, which generated growing disaffection on the part of local communities. The injection of cash into the local economy and the presence of contractors fuelled both corruption and extortion, and led to an escalation of civil conflict. In particular, the violent activities of both guerrilla and paramilitary groups affected all elements of society in Casanare, casting a shadow of intimidation among its communities and impeding social and economic progress. In the midst of this complex web of expectations, impacts and opportunities, BPX consciously attempted to define and redefine their community responsibilities. The evolution of the company's social policies and programmes, and the way in which BPX in Colombia achieved its objectives despite the various obstacles, lay at the heart of this evolution process – BPX's commitment to community development.

Underlying BPX's community strategy in the broader business sense was the need to uphold the company's reputation as a good employer and contributor to national wealth creation. The foundation of the strategy was a three-way partnership between BPX, the local community and government agencies. This enabled BPX to identify essential needs, complement governmental responsibilities, encourage community self-help and avoid any accusations of paternalism.

For the most part, BPX's community affairs activities were progressive, far reaching, and produced benefits for both the company and the community. The company's most remarkable achievement was to obtain a licence to operate from communities, and to implement major industrial development, despite difficult local circumstances. However, BPX's involvement with the communities was not always of mutual benefit, or at least, was not always seen to be so. In other cases, BPX was criticised for investments or interventions that were viewed by some as being inadequate. More significantly, BPX were at risk of being associated with a lost development opportunity, because of the inability of local government to manage revenues that accrue locally for lasting social and economic benefit.

Liaison with governments and authorities happened at two levels – national and local. For community development, only the local level was relevant, whereas at a national level, policy was the dominant issue, at local level, relationships where infrastructure developments were social problem orientated rather than regulation orientated. BPX had to integrate its social investment into the community development plan and it needed to co-ordinate its activities with others. However, authorities at local level were not prepared for the new tasks. This circumstance had a negative influence on BPX's social contribution to Casanare and ensured the necessity for community development partnerships.

Communities should not only benefit directly from the wealth and jobs that were created, but also from developed skills within the local population, resources invested, products and services provided, and BPX's active participation to meet society's needs. Hence, the company committed to four areas of community responsibility (BP Social Report, 1997):

- Institutional strengthening;
- Human development;
- Income improvement;
- Improvement of the standard of living.

4.3.2 *From Impact Management to Regional Development*

When BPX began its community development programme in the early 1990s they had neither a policy nor a strategy. Only after the integration of a community affairs team in May 1992 did the company move towards a more structured partnering with its communities. In 1993, based on a community affairs policy, BPX engaged with communities proactively so as to analyse and manage their expectations. It was after 1997 that the company developed a vision for sustainable community development, focussing on the region of Casanare rather than on specific local issues. Because of the high commitment from BPX's senior management, and a corresponding reluctance on the part of stakeholders to become involved, the strategy was revised in 1997. Since 1998, the company has striven for an internalisation of a regional development of Casanare. Indeed, an ongoing review process of BPX's community commitments and activities provides the company with a base to assess and develop a strategy for its partnerships for community development.

Groups such as village and worker associations, church organisations, and NGOs represent the society of Casanare. Recognising its community responsibility as being primarily driven by the social risk that had been introduced to Casanare, BPX changed its community activity commitments from reactive impact management to strategic regional community development. The following five sections describe the partnership building process in detail.

4.3.2.1 Compensating Company's Social Impact

As early as 1992, BPX facilitated communities so as to diagnose their development needs and priorities. In doing so, the company helped to ensure that community development programmes were of direct relevance to the intended beneficiaries; create a forum for discussion with communities; foster their independence, capacity to negotiate and plan; and to improve the prospects for success of the follow-up development projects. BPX's insistence on co-financing with municipalities, and on community contributions was also very progressive for its time, in attempting to improve community development initiatives. However, the former BPX head of community affairs remembers that they "had no foundations, no strategy, no view of the future".

The objectives underpinning BPX's social and community programmes in Colombia have evolved over time. Originally, their main aim was to manage the direct socio-economic impact of exploration, with a view to developing support for the company's activities and establishing better communication channels. Until 1992, BPX's community responsibility resided with exploration managers, although the need for specialist advice on social issues was recognised, and in consequence three professionals were employed. Following the setting up of a community affairs team in May 1992, the aim of BPX switched to managing expectations of local communities and to collaboratively developing a diagnosis of the needs of the individual communities affected.

Prior to 1993, there was no explicit corporate policy on community affairs, since these were embedded within a general commitment to environmental policy, and the aspiration not to do harm to people or the environment. The community affairs team in Casanare developed a robust policy and a series of related programmes in 1992/1993, these being directly relevant to Casanare, and they communicated the resulting benefits to the corporate centre in London as they emerged. A number of staff from the community affairs teams participated in peer-assisted reviews of other BPX operations, both internationally and in internal conferences on community affairs, and this further helped to disseminate the benefits of the approaches being adopted in Casanare. However, BP's senior management at the headquarters in Bogota and London had only little understanding about the relevance of community affairs activities.

Prior to 1992, most community investment initiatives were not demand-driven, but rather, they aimed at mitigating the local impact of operations, while enabling BPX to continue with exploration. Although many individual investments were locally appropriate, they took place without any overall development strategy or interaction with the community. In many instances, there was a degree of local resentment from those who had not benefited from what was perceived as 'buying favours'. "Compensations for BPX's social impact in Casanare did not meet communities' expectations and were primarily reactive", concluded a BPX legal advisor.

4.3.2.2 MANAGING COMMUNITY EXPECTATIONS

The establishing of a community affairs team in May 1992 marked a significant change in the way social programmes and projects were managed. First, a framework within which individual investment could be made was developed. Community affairs personnel then facilitated communities within BPX's area of influence to develop a diagnosis of their development needs and expectations, involving a series of interactions between communities and community affairs personnel. The form of these partnering activities varied from open public meetings to focused workshops.

Once development priorities had been established, communities were obligated to prepare a plan for individual projects, specifying objectives, material requirements, costs, etc., with input from either BP specialists or their appointed consultants. The majority of community development projects were submitted to the appropriate municipal authority for initial approval, BPX's involvement generally being contingent on the availability of counterpart funding. Except in emergency situations, the company would not finance projects without counterpart funding from municipalities and input from communities. For each project, all involved partners had to sign an agreement, which detailed the responsibilities for planning, implementing, and financing the project. A BPX government and public affairs manager commented that the "lack of consistency in communities' planning schedules had negative influence on BPX's community development efficiency".

The 1993, community policy and programmes formed the base for managing expectations at a community level, and for creating trust and dialogue. The programmes were broadly divided into urban, rural, and support activities. BPX's community affairs team focused on the following areas (BP in Colombia, 1997):

- Developing partnerships;
- Developing relations of mutual benefit with stakeholder;
- Complementing the activities of the state in relation to infrastructure provision;
- Evaluating the basic needs of communities as the basis for investments;
- Promoting community participation in developing investment proposals; and
- Developing relationships between communities, state and private enterprises.

Although, BPX in Colombia tried to manage communities' expectations in a proactive way, the company was criticised for its failure to adopt a strategic development perspective. The Cusiana environmental pre-diagnosis highlighted the difficulties, which the territorial authorities in the neighbouring department of Aurauca experienced in benefiting from royalties, and the related escalation in conflict. It also identified a weak institutional capacity for planning and management of royalties. BPX appeared unable to assist the local authorities to manage royalties in an equitable and transparent way. In mitigation, BPX was rightly sensitive about being seen to be meddling in the affairs of state. The company supported preparation for development plans and provided training for municipal and departmental personnel, but frequent changes in administration have diluted the long-term benefits of such efforts.

The main criticism of the 1993 community development approach lay in the narrow definition of the project's areas of influence to which programmes where tied. This was divisive, as communities beyond the limited boundaries of influence were unable to benefit from BPX's supported development initiatives. Reviewing these community development projects, a BP legal advisor commented:

> *Until today one can say that the Casanare community does not feel these projects as projects of their community. This has created a lot of problems with stakeholders and especially with investors.*

BPX recognised the problem and further developed its approach. The revised objective was to provide support for regional as well as local programmes, and mechanisms through which benefits could be more broadly shared on departmental level for regional development.

4.3.2.3 VISIONING SUSTAINABLE COMMUNITY DEVELOPMENT

Prior to 1996, the overall responsibility for implementing the community affairs policy was vested in the president of BPX in Colombia. In 1996, a BPX associate president was appointed based in Yopal, with overall responsibility for community affairs. This significantly raised the profile from community affairs. The community affairs team comprised 16 people. It revised its community development approach. Social aspects were included in training for project managers and other staff.

In 1997, a new post of Casanare manager was created, replacing that of the associate president, and this manager was accorded responsibility for both operational and community affairs functions. Moreover, BPX consulted with its business partners, the community, and government representatives to define a joint vision for the region – Casanare 2000. It was a pilot model, which sought to lay the foundations for sustainable development, based on the sound investment of oil revenues. To achieve this vision, BPX jointly identified seven strategic principles and implemented projects that address community needs. For example in training, small business support and the environment were important areas to be considered. At the same time, BPX supported projects to improve the physical, social, institutional and economic infrastructure, which they believed would help lay the foundations for sustainable improvement in the quality of life of the people in Casanare. With its partners, BPX's social investment in 1996 was nearly USD 9.7 million.

BPX's community record in Colombia and beyond has enabled the company to facilitate a closer relationship between the World Bank and the Colombian government to support regional development. The Bank is now working with the Colombian government to give financial support to an integral family care centre in Casanare, in which BPX is a partner. The centre provides health advice to pregnant mothers, day care for children and recreation and employment advice for youths. The project was the first example in Colombia of a three-way partnership between the World Bank, a national government and a private sector company, and established a model for future development programmes.

BPX also supported a number of initiatives to encourage non-violent behaviour and promote human rights. These included a peace programme in Aguazul; one of Casanare's most violent areas, as well as citizens' rights campaigns and conflict management programmes in Casanare and along the route of the pipeline connecting the oilfields with the coast.

Although BPX directly managed and funded a number of community programmes, it decided, along with its joint venture partners Ecopetrol, Lasmo Oil, Total and Triton, to pool resources and establish a basis for delivering programmes on the partner's behalf. The benefits were substantial: administration costs are reduced; the partners can speak with a single voice to the government; and they have extra bargaining power with suppliers of goods and services.

Excursus Casanare 2000 - A vision of the future based on seven principles

1. Leadership in occupational health, safety and the environments.
2. Maximising job opportunities for local people both directly and through BP contractors and increasingly opportunities for local companies to supply goods and services.
3. Guaranteeing the security of BPX's workers in Casanare, within a framework of close co-operation with the Colombian government and its institutions. Security actions undertaken must promote a peaceful work environment based on good community relations and respect for human rights and must contribute to improving security conditions in Casanare.
4. Maintaining a permanent dialogue with the community and the authorities by fulfilment of BPX's commitments and the timely provision of information on BPX's projects and plans.
5. Contributing to the presence and development of strong institutions in Casanare.
6. Obtaining additional resources for social investment with the support of communities and authorities and seeking joint funding from national and international sources.
7. Maintaining social investment in the following areas:
   - human development
   - institutional strengthening
   - regional economic development
   - environmental conservation
   - investment in infrastructure projects.

Figure 10 Excursion Casanare 2000 (Source: BP Social Report, 1997)

This benefit also meant that the foundation, rather than the companies, operated programmes, decided what to support and where and when to invest funds. Since some of the contributions to the foundation were capitalised, the foundation could survive the eventual departure of the oil companies from Casanare.

The establishing of Casanare 2000 involved considerable effort and vision at a corporate level, but had little involvement from the local authorities and communities. Irrespective of how well conceived Casanare 2000 was, two year after its conception the lack of input from stakeholders delayed the adoption and implementation of the strategy. Consequently, BPX's social investments appeared to be a little more than disparate development initiatives rather than a strategic vision. Nevertheless, the shift in emphasis from managing local impacts and expectations to one of sustainable regional development supported by oil revenues marked a significant shift in policy. The opinion of a BPX community affairs manager was:

> *BPX rationalises things very fast. It understands the problem and makes a very good analysis of the problem and finally develops a good policy and strategy. [...] the problem was that it had commitment from the top but did not involve enough line managers and affected stakeholders.*

4.3.2.4 INTERNALISING REGIONAL DEVELOPMENT

Many of the principles, aspirations and approaches outlined in Casanare 2000 required review when BPX overhauled its strategy in Casanare in 1998. The expectation was that the review would emphasise the developing responsibility for community affairs to field based operations managers, supported by fewer specialised community affairs personnel. To ensure that community affairs did not become of peripheral concern to front-line managers, mechanisms for improved accountability were put into practice. In effect, community affairs became one of a number of key areas that together formed the basis for evaluating the performance of managers.

Since 1998, BPX has had its community offices outside the fences. This made them accessible for the community. A BPX community affairs manager summarised these new partnering activities:

> *We have contacts with the church. We have contacts with the community. We have a council where we discuss opportunities. The meetings are basically organised by the community and we will go there. We have what we call 'juntas'. We have representatives that cover the region and we cover various problems.*

BPX and the community organised workshops to discuss community development issues and to set priorities for projects and programmes. The community decided on priorities and how they could support the project or programme so that it became a community owned project financed by BPX. "Finally an agreement was signed" said a BPX community project manager. "This was a process of negotiation that started every time we started a new project. We controlled the project progress. The majority was not successfully finished."

While most beneficiaries of BPX's community projects acknowledged the benefits of BPX's involvement, they typically view the company's contribution as obligatory and an inadequate response to disruption brought by oil production. Given that BPX's community development budget in Colombia of USD 6 million in 1996, and nearly USD 100 million in 1997, represented a fraction of royalties' related earnings in the department, the real opportunity for sustainable development in Casanare lay in harnessing these revenues more effectively. BP's head of community affairs named the new strategic direction for community development as "long-term economic development in partnerships with communities".

4.3.2.5 Reviewing Community Development

In 1994, BPX initiated a database to control the effectiveness and efficiency of its community development activities. Monthly and quarterly reports were produced that provided a summary of the people involved, the money spent and other, quantifyable social impact measurements. Budgets and strategies were based on past performances. Later, in 1996, a social impact assessment tool extended the database. However, BPX's head of community affairs admitted that "there were no indicators or benchmarks that could be used to argue for further investment and most of the budgeting at BPX is based on a mechanism like this".

To ensure that community perspectives on BPX's social investments were as representative as feasible, a Colombian NGO was set up to facilitate evaluations of representative projects that BPX had co-financed. In terms of community participation, this evaluation concluded that participation during the planning stage of specific projects was often minimal, but improved substantially during project implementation. Although most projects resulted from the way in which the needs of communities were diagnosed through participation, individuals with leadership skills often directed, through follow-up projects, which particular needs received attention. In terms of the processing of projects, a recurring criticism was that information was not always readily available, or intended beneficiaries were unaware of how to access information or participate more actively. In most cases, public partnering beyond implementation was neither relevant nor perceived as important communities. In general terms, the level of participation in co-financed community development initiatives by BPX improved over time. However, a BPX public affairs manager concluded, "the development of Casanare requires an amount of resources that BPX did not have. We need to carefully decide in which community development activities it is worthwhile to invest."

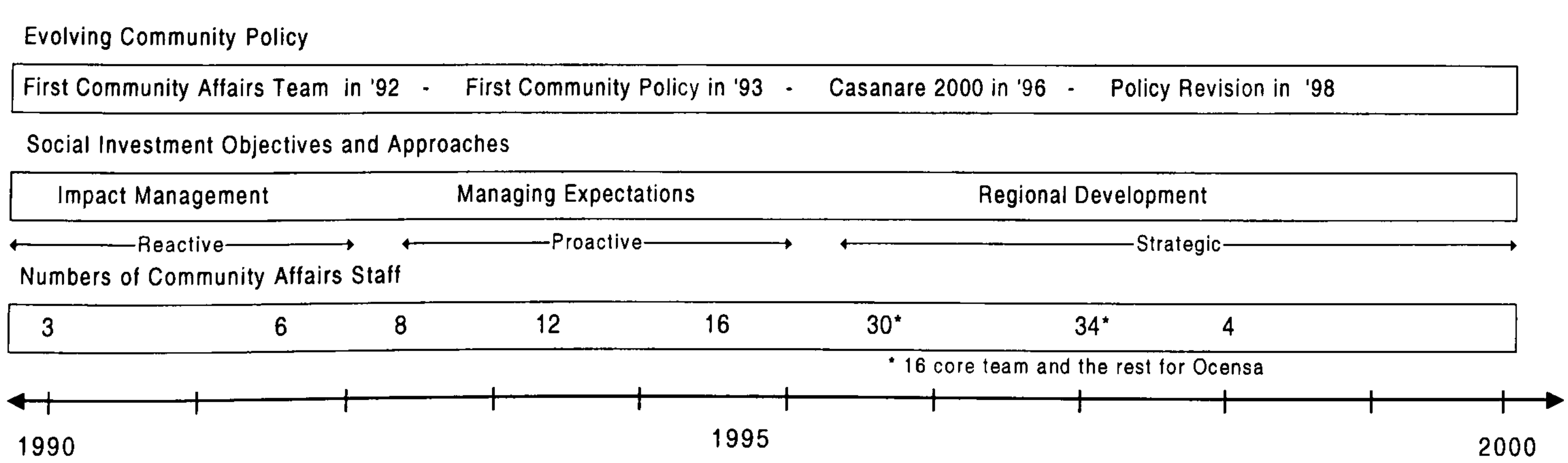


Figure 11 BPX's Evolving Framework for Community Development in Colombia

Overall, most involved community development partners considered that projects delivered tangible worthwhile benefits, although it was not possible to evaluate the long-term benefits of the educational aspects of certain projects. However, a commonly held view of BPX's effort, was that they represent a partial, if inadequate, retribution for disruption related to oil production. This may be inevitable, given that communities had little faith in the capacity of the government to deliver tangible benefits, despite their improved access to finance as a result of royalties from BPX's operations. Because of this, BPX became the focus of expectations that often overlap with the roles and responsibilities of government. In this context, it was BPX, rather than government, that became the target of frustration and disappointment at the failure of the government to deliver improvements in their social well being. The company was committed to supporting the Colombian society by efficient, effective use oil revenues. BP's MD for policy and politics concluded, "the absence of a civil society was a great threat to capital".

4.3.3 Community Development Features

BPX's presence and its operations in Colombia had considerable positive and negative impacts on Casanare. The poorest department of Colombia got the chance to develop its communities with wealth created by the oil industry. However, community development was only possible through a triad partnership between the company, communities and local authorities. BPX recognised its community responsibilities, and accordingly, committed itself to community development. This was based on the company's endeavour to manage its social impact. Communities' expectations were centred around BPX's contribution, and by implication, its impact on society. Both, the company and the community were convinced that social impact management was the key to sustainable community development. However, because of the wide impact area that was affected by BPX's presence in Casanare, various communities needed to be involved, and complex development issues needed to be considered. BPX could not mitigate all social conflicts and risk potentials. Communities' needs had to be analysed and to be understood in order to meet social expectations. BPX, together with communities and local authorities, were in a position to co-finance social investments. The underlying purpose for the community development partnership was joint social investments and social impact management.

When BPX began its operations in Colombia they had only a limited understanding of the social environment and the company's effects on it. Accusations and criticism with regard to BPX's social impact and contribution to community development made the company aware that it was not meeting society's expectations. The primary reason was that BPX built community affairs often detached from the society, without enough stakeholder engagement. BPX recognised that to achieve sustainable community development with a positive return to its business, the company had to forge partnerships linked to social expectations. These became more visible when they focused on negotiations about concrete projects and joint actions. Workshops and open forums were established so as to analyse and understand social expectations in general. After prioritising community development issues specific project planning began. For each project a formal agreement between the involved partners was signed. Therefore the covenant for community development was informal and social expectation based, but in addition, formalised, for every specific community development project into a signed formal project agreement.

BPX committed itself to community development, which implied a community policy, a community affairs team and a social investment budget. However, the company experienced difficulties in achieving sustainable community development without communities' commitments as well. BPX aimed to transfer the ownership to the affected community members and local authorities. The company's early, paternalistic approach meant that many projects were inefficient, or indeed, failed. However, BPX's primary commitment was one of social investment, which financial contribution combined with expertise knowledge. The communities' commitment was based on active engagement and participation in project fulfilment. Lack, or indeed misuse of commitment on at least one side of the partnership often resulted in criticism about and failure of the partnership projects. Hence, commitments were the power base for the community development partnership that was sometimes consciously and sometimes unconsciously applied. Because the success of community development in general and certain projects in particular, depended on the full commitment of both partners to achieve the appropriate ownership structure, there was a mutual-dependent power balance between BPX and its communities.

While BPX integrated and developed its business within Casanare, social and environmental issues changed. The company developed a policy and programmes that influenced its engagement with community development. BPX's approach was reactive at the beginning of the partnership, and only became strategic after 1996. Community development also needed to be aligned with the development plans of local authorities. Because of various inconsistencies in the government mechanism these often changed, and BPX had to adapt its development activities. Communities' needs and expectations based on social development also changed over time and required changes in BPX's community development engagement. While the company had a continuous consultation process with its community partners, every concrete development project required a separate, quite specific negotiation process. Nevertheless, based on achieved project objectives and mutual learning resulted from this, the involved community development partners enhanced the process of the re-negotiation for new projects. The experiences from projects, the analysis of social impacts, together with the criticism that BPX faced from NGOs about its community development activities, influenced the company to change its social investment approach to meet societies' expectations. Therefore, the evolution of the community development partnership was embedded in a gradual re-negotiation process of development projects and community affairs professionalism developed towards strategizing for regional development. This implied the application of a long-term perspective towards a community development partnership that would ensure positive social impact even for the time when BPX will be long gone.

The following table summarises the community development features:

Purpose	Covenant	Power	Evolution
▪ Social Impact Management ▪ Co-financed Social Investments	▪ Social Expectation Based ▪ Formal Project Agreements	▪ Commitments as Power Base ▪ Mutual-Dependent Power Balance	▪ Re-Negotiation for New Project ▪ Strategizing for Regional Sustainability

Table 8 Community Development Features

Chapter 5 HOECHST IN GERMANY: MANAGING SOCIAL RISK IN A DEVELOPED SOCIETY

> *We have learned that a company needs to establish and promote a dialogue with all its stakeholders. In brief: you can only realise what you can communicate.*
>
> Jürgen Dormann (1998)

The Hoechst Group is an international network of companies that recently changed its business focus from industrial chemicals to life sciences, specifically pharmaceuticals, agriculture and animal health. Because of induced social risk, Hoechst's business practice was often under criticism. This chapter focuses on Hoechst in Frankfurt/Germany. The transition from chemicals to life sciences is described and analysed by focussing on three selected relevant areas of social risk management:

- Hoechst's social reintegration in Germany;
- The development of a sustainability strategy tool together with an NGO;
- The building of a Community Discussion Group.

In 1997, the companies consolidated in the Hoechst Group achieved sales of around DEM 52 billion and had nearly 120,000 employees (InfraServ Fact Sheet, 1997). Since this year, Hoechst Aktiengesellschaft has been a strategic management holding, steering a group of legally independent companies operating autonomously with their own logos and corporate design in their specific sectors and markets. As a German global acting group, Hoechst has its corporate centre in Frankfurt am Main. It is the most important production site of the Hoechst Group. InfraServ Höchst, a new service company owned by Hoechst's autonomous subsidiaries, is the operating company of this Industriepark. Hoechst illustrates how a transnational company in a developed society is striving for a new identity through social reintegration and the building of stakeholder partnership.

5.1 REINTEGRATING BUSINESS INTO SOCIETY

5.1.1 Social Risk as Driver for Business Reintegration

Around fifty years ago, on 7 December 1951, Hoechst Aktiengesellschaft was founded as Farbwerke Hoechst Aktiengesellschaft vormals Meister Lucius & Brüning in Frankfurt am Main. The original company was also founded here in 1863 and Hoechst developed an integrated relationship with the surrounding society. The company got off to a difficult start six years after the catastrophe of the Second World War, when Hoechst was involved with the employment of forced labour convict as part of IG Farben, and just two years after the foundation of the Federal Republic of Germany. A damaged reputation and a starting capital of only DEM 100,000 are indications of this (Bäumler, 1988). Nevertheless, although it had just been founded, the company had the potential to build on a long tradition in research and development as well as outstanding products. It was crucial to establish international competitiveness and favourable relations with society. However, the company was not always an integral part of society.

Hoechst's reputation was constantly affected by the widespread view of the chemical industry as a polluter. For many years, the company received criticism of its negative environmental impact, resulting from both production facilities and products. The Farbwerke portion of the name referred to the most important field of activity of the predecessor companies, which had profoundly changed the colourful world of dyes since the mid 19th century. Soon after, work in industrial chemistry and life sciences, in the form of pharmaceuticals, and fertilisers began. However, Hoechst's community not only benefited from the company's prosperity, but to face the consequences of Hoechst's induced environmental pollution. Ultimately, critical chemical accidents called for radical changes and participation of affected stakeholders on the way towards solutions.

The Hoechst site in Frankfurt is part of a city particularly prone to ecological risks. When the company was founded, the site was close to a village called Höchst. Today, this area is a district of Frankfurt, surrounded by various communities with high populations. Hoechst built relationships with this neighbourhood, and supported the development of the region. Until the 1970s, the company considered it as their responsibility. During the 1980s, Hoechst began to minimise its engagement in community development. The company partly justified this by the fact that quality had been achieved, and partly because they considered social responsibility as "state's responsibility rather than company's", as a Public and Governmental Affairs manager from Hoechst expressed. As a consequence of the breakdown in relations, the community understood Hoechst's behaviour no more than Hoechst could understand society's behaviour.

As a result of Hoechst's restructuring, and other associated changes, the company is responsible to some degree for increasing the social exclusion of surrounding communities. International competitiveness forced Hoechst into a cost-cutting programme, which resulted in redundancies and cuts in community programmes. Hoechst's communities asked for social security and information about environmental impacts, including possible effects on human beings and nature. In addition, globalisation raises the awareness of effects on international communities. Hoechst became unable to manage these aspects, and in consequence was driven into a defensive position. Most crucially, the company had a series of chemical accidents that not only negatively affected communities of Hoechst, but also the performance of the company in general.

The transition towards a company devoted to life sciences causes new social risk challenges. Gene-technology is one of Hoechst's future areas of involvement, so it is hard to predict long-term effects on society. However, the considerations about gene-manipulated products are often at the top of the agenda of social risk disputes. Along with information technology, gene-technology is likely to change societies, and therefore people demand to be informed, and to play an active role in change. A way of resolving resulting conflicts is through social reintegration and partnership building that can support Hoechst's endeavour to establish a new identity and build a good corporate reputation.

5.1.2 *From a Chemical to a Life Sciences Company*

Under considerable external pressure, Hoechst, as many other companies, started to integrate environmental management aspects in the 1980s. Between 1993 and 1996, while managing the aftermath of major chemical accidents, the company realised how far it was detached from the surrounding communities. Established systems and structures could not sufficiently support the management of social risks.

Hoechst's reputation was at a point where it had a negative impact on a company's business performance. Consequently, Hoechst adopted the concept of issue management. Corporate communication became a leading management system after Dormann took over the helm of the CEO of the Hoechst Group. It was he who initiated and led Hoechst's radical transformation from an industrial chemical to a life sciences company. On the basis of this restructuring and change of business focus, Hoechst established a new global corporate identity and new corporate values. At first, this resulted in a loss of identity among many of Hoechst's employees in Frankfurt. In 1997, Hoechst announced sustainable development as its guiding principle, and began to integrate it into business practice. After the major transition process, Hoechst announced its merger with Rhône-Poulenc in Aventis – the world leading life sciences company.

The following seven sections describe Hoechst's transition process from a chemical to a life-science company within the context of social risk management.

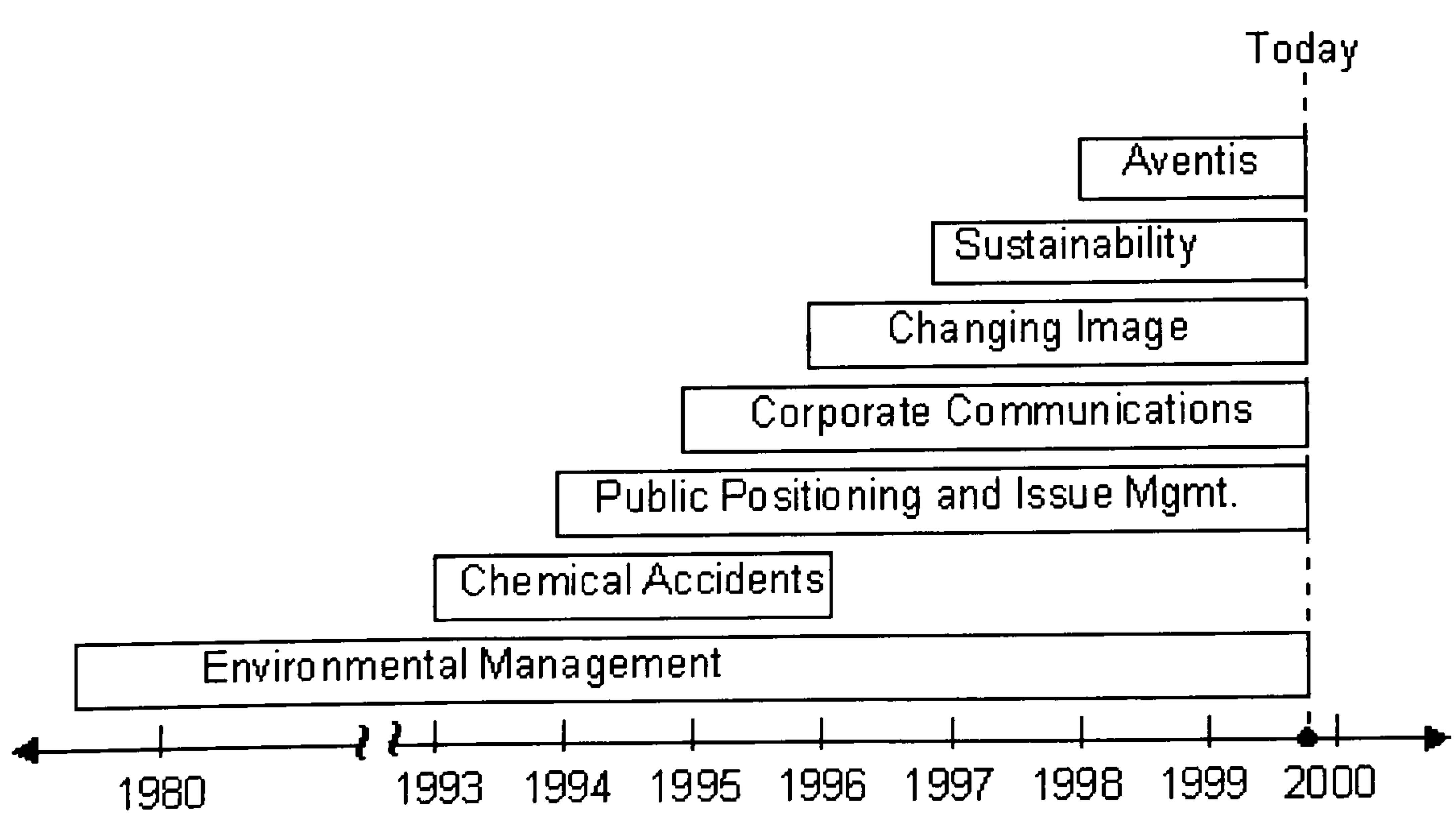


Figure 12 Hoechst's Thematic Timeline

5.1.2.1 ADOPTING ENVIRONMENTAL MANAGEMENT

In the 1970s and 1980s, Hoechst received massive criticism from environmentalists in terms of its products and production facilities. At the same time, issues like global warming and use of natural resources came to the forefront of the political agenda. Environmental standards and regulations were formulated and imposed. The whole of society developed an environmental consciousness. For business, the ecological environment turned into an important external cost factor.

Environmental management entered the management deck in the early 1980s. Since then, it has been developed according to a sophisticated management process that is linked to Hoechst's operations and economic mechanisms (Schreiner, 1996). Many businesses in the Hoechst Group involve the use, emission, discharge, and disposal and clean up of various substances that are regulated under environmental law. Hoechst has sought to take the initiative in this area by developing new products and by investing in sophisticated technologies to reduce emissions and discharges under the pressure of environmentalists and environmental regulations. The change in Hoechst's product mix towards those that involve a lower risk of environmental hazard should decrease environmental expenditures in the future and enhance the quality of life. To achieve this, a specific process has been integrated into the existing strategic management process (SMP), which identifies and evaluates risks and issues of strategic relevance.

Environmental management in developed countries is a highly regulated, quantified system. In 1996, the Hoechst Group invested DEM 227 million in environmental protection, health, and safety facilities (DEM 265 million in 1995). The operating costs of environmental protection in 1996 totalled DEM 1.2 billion (DEM 1.5 billion in 1995) (Hoechst Direkt, 1997; Hoechst Annual Report, 1996): Air-pollution control: 19 per cent noise prevention: 2 per cent prevention of water pollution: 44 per cent waste disposal: 35 per cent. In order to assess products and manufacturing processes from an environmental protection and occupational health standpoint, Hoechst developed the Product Risk Evaluation Process (PREP). The operating units of the Hoechst Group apply this tool to incorporate environmental protection and safety aspects into the SMP. The evaluation thus automatically became part of the strategic planning and shaping of the entire Hoechst Group. Businesses that pose environmental and health risks can thus be replaced by eco-friendlier projects. The objective of the company is to achieve the ISO 14000 standard at all European locations by the year 2000. Hoechst also developed and applied environmental guiding principles:

Protection of People and Environment
- Continuous protection improvement of people and environment with integration of employees as well as application of optimal eco-efficiency technology
- Development of new as well as improvement of existing products and processes with the objective of efficient use of resources and environmental protection
- Hazard protection of employees, neighbours and environment that are likely to occur in case of an emergency

Contractors
- Selection of contractors under consideration of health, safety and environment standards
- Information and support of customers, consumers and contractors for the safe and environmental responsible use, utilisation and disposal of products

Public
- Open co-operation with public administration and comprehensive information of the public about site activities and their likely effects for people and environment
- Active communication and dialogue with all relevant interested stakeholders

Prevention and Emergency Management
- Prevention of breakdowns and therefore possible negative impacts for health, safety and environment
- Operation of alarm and hazard management that enable to limit the likely negative effects of breakdowns on people and environment

Figure 13 Hoechst's Environmental Guiding Principles (Source: Umwelterklärung InfraServ, 1997)

In terms of its corporate policy Hoechst adapted the Responsible Care® programme. This initiative was developed by the chemical industry for the chemical industry. Employees at all company levels are trained in order to enable them to contribute to the implementation of these measures. Product stewardship and continuous communication with stakeholders are particularly important elements in Responsible Care®. While facing the constraints of environmental law, Hoechst also tried to influence new environmental regulations through targeted lobbyism.

5.1.2.2 FAINTING AFTER CHEMICAL ACCIDENTS

Three serious chemical accidents happened in spring 1993. On February 22, an uncontrolled chemical pre-product mix escaped from Hoechst's production site and contaminated an area of Frankfurt, about 42 hectares, with about 2,500 inhabitants. An employee died after an explosion at the Frankfurt site on 15 March 1993. After another chemical accident on the second of April, Hoechst placed an area of Frankfurt under gas alert. During and after these incidents Hoechst had a limited, closed communication policy (Schönfeld, 1996).

Two further chemical accidents in 1996 put Hoechst in a critical and controversial situation. At Hoechst's site in Frankfurt questions were asked about the implications and effects of these accidents on Frankfurt's population and the environment; but these were accompanied by questions about Hoechst safety prevention and its information policy. On Monday 29 January 1996, the first stock exchange day after the chemical accidents, the Hoechst share prices fell. Despite a friendly stock exchange climate, the notation in Frankfurt dropped by 3.30 to DEM 429.50. In contrast, the shares of Hoechst's competitors Bayer and BASF rose value by 6.30 to DEM 439.80 and by 2.80 to DEM 349.50 (FAZ, 10 January 1996). Frankfurt was not a new Bhopal or Seveso. However, Hoechst was fortunate to escape a company closure enforced by environmental law. The total damage caused by this chemical accident amounted to around DEM 10 million in terms of direct internal and external costs excluding any liabilities to recourses (FAZ, 10 January 1996).

Regardless of any agreement with the city of Frankfurt, at the scene of chemical accidents the internal fire brigade was informed very late; there was no sirens alarm and only little information was given to the public. Together with TÜV, an independent specialist auditor, the company searched for the causes of the accidents. The Hessische Landtag, the parliament of the federal state where the accidents happened, discussed these, and the minister for environment ordered further investigations. Under pressure, Hoechst developed a new safety programme that also included safety managers for each site (FAZ, 10 October 1996). Hoechst employed 40 experts after the chemical accidents in the Rhine-Main area[2] that were responsible for the development of a proactive safety programme. Dormann said "emergency managers have to respond to critical incidents within three to five minutes". Today, co-operation with stakeholders provides Hoechst with knowledge and understanding of how to react in cases of critical incidents and how to be more proactive. One of Hoechst's emergency managers said: "We did not know under which conditions we have to push the

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[2] The Rhine-Main area is a concentration area of major industrial and service companies around Frankfurt, where the river Main flows into the river Rhine.

button." Between 1993 and 1996 Hoechst trained around 2,800 employees from the point of view of safety procedures.

After the accidents, the climate among Hoechst's workforce was characterised by stress. The objective of Hoechst was to enhance the quality of work and the understanding of employees for their responsibilities. Nevertheless, Hoechst's unjustified propaganda about the quality and the high environmental standards of its production facilities distracted this endeavour. Employees overstated the miracle power of the efficiency of the biological purification plan. Consequently, Hoechst was forced to introduce additional system checks and risk assessments.

According to statistics provided by the German Federal Environment Agency between 1992 and 1995, BASF had 24 chemical accidents that were subject to registration but Hoechst had, during the same period, only nine incidents to report. However, chemical accidents within Hoechst experienced a very different aftermath to those of its competitors, BASF and Bayer. Accidents in the Rhine-Main-area elicited more attention because of the location of the sites within the city, criticism from politicians, NGOs and citizens, and the tradition of the company as a notorious Main-polluter. Critics had the impression that the company is not interested in the fear of the community, but is very concerned with investment conditions in Germany. At the time of the chemical accident in 1993, Hilger, CEO of Hoechst at this time, was on vacation and it took him a couple of days to respond to the incident.

Hilger's successor, Dormann began his job in April 1994 with the promise that he would transform Hoechst into a transparent company. Indeed, at the time of the accidents in 1996, Dormann was on a business trip in the US, but provided a public apology for the incident. On the first working day after the accident a Community Discussion Group (CDG) initiated by Hilger came together, and a MD from Hoechst gave information about the incidents and answered questions from community representatives. The Board of Directors decided to invest more than DEM 150 million in extended safety management (FAZ, 1 February 1996).

When asked about Hoechst's strategy, Schadow, MD with responsibility for technique and environment said that "Hoechst had learned its lessons and will try its best to develop an urban sociable chemistry." He added: "For this reason, the Hoechst Group will closely co-operate with its various stakeholders." In 1996, Hoechst introduced its first environment magazine 'Change', a colour journal with 108 pages and a circulation of 250,000, available at no costs to all stakeholders. Fischer (1996), at this time federal environmental minister of the Green party in Hesse, wrote one of the first articles. The title is "Remain present and become better."

5.1.2.3 POSITIONING BY MEANS OF CORPORATE REPUTATION

Because of technological changes, societal development and environmental awareness, the German chemical industry has experienced continuous change over the past 50 years. However, this has become more and more relevant socially rather than from a technological or financial aspect point of view (Bathelt, 1997; Hessische Landesregierung, 1998). Remaining present and competitive for Hoechst, especially after the chemical accidents, was possible only by striving to review public confidence – a positioning problem in society's mind that effects its behaviour in various ways.

'Wagenburg'[3] was the metaphor given to Hoechst in 1993. Stakeholders considered the company as isolated from its surroundings and arrogant towards its neighbours, politicians, and lay people. Critics complained about selective information instead of communication and no attempt to change. In general, Hoechst was recognised as a sclerotic and hierarchical company, and detached from society. In contrast, Hoechst's management, at this time, considered mass media and politicians as enhancing the hysteria in favour of their own objectives. A prevailing opinion was that citizens would like pharmaceuticals but not their production, and critics do not have a real interest in facts. Managers felt that Hoechst did lots of good things for the region and its people.

The Institute for Opinion Research in Allensbach/Germany conducted a study of Hoechst to investigate the reputation of the chemical industry in Germany. 40 per cent of the interviewees expressed a negative opinion about Hoechst. Asked what one most remembers about Hoechst, 88 per cent responded 'chemical accidents', 83 per cent 'environmental pollution' and only in third position with values between 75 and 79 per cent, 'Hoechst's

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[3] This term was given to Hoechst during its bad information politics in the 1990s. A translation could be *'wagon castle'* which describes institutions that built an imaginary wall around them. This detaches them from the society.

products'. In contrast, Hoechst's competitors received much better marks 18 per cent (BASF) and 19 per cent (Bayer) in terms of negative opinions (FAZ, 2 February 1996). The research shows that 51 per cent of the interviewees want chemical companies to remain close to, or within, cities. Among citizens of areas, where companies operate within cities, the response rate was even more positive (59 per cent). Based on an opinion poll, commissioned by Hoechst to find out what society's expectations are in terms of company's contributions to it, the following graph lists some major priorities:

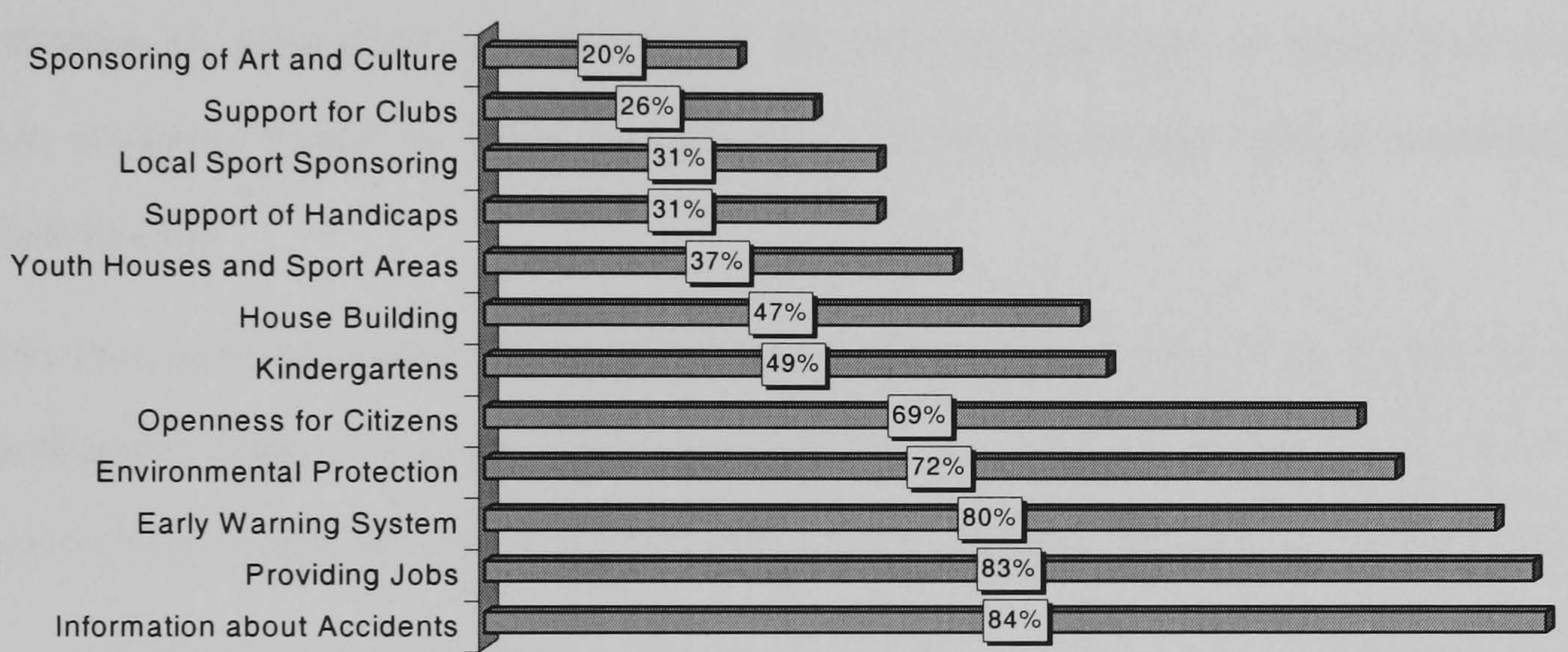

Figure 14 What should big industries do for its neighbours? (Source: Piel, 1996)

Hoechst wanted to position itself at the highest end of stakeholders' expectations. However, before Hoechst started its stakeholder engagement, it developed a five-stage model for strategic issue management (Issue Management, 1996): (1) issue scanning, (2) issue impact assessment, (3) prioritising issues, (4) development and choice of action alternatives, and (5) realisation and success control. Issue managers were located within corporate communications and operated as links between various departments and managers within the group.

Corporate reputation became an important component of Hoechst's policy and strategy making. The company recognised that reputation building needs to be emphasised on its stakeholders if the company wanted to position itself within society.

Hoechst considered stakeholder positioning as crucial because (Henschel, 1998):

- Public acceptance is a high and sustainable return on investment;
- Attractiveness of a company is important in winning new employees;
- Motivation of employees depends on pride in the firm;
- Decisions of market participants is orientated towards image;
- People do have an interest in what companies do;
- Public opinion and media are linked and can have a positive or negative impact on a firms' image.

After placing the issues of corporate reputation and stakeholder positioning firmly on the company's strategic agenda, Hoechst formulated conclusions with regard to strategic principles of stakeholder importance and the active management of stakeholder relations. The company began to strive for greater transparency through global networking with stakeholders.

With Dormann, an economist became head of the company rather than a chemist, as had traditionally been the case. This changed the technocratic culture to a more open, communicative one. An environment manager from Hoechst viewed this change as follows:

> *It depends where the CEO is most engaged. This area will succeed in the internal power conflict. We are moving away from a technology driven to a communication driven culture.*

5.1.2.4 PRIORITISING CORPORATE COMMUNICATIONS

It was not only for stakeholder positioning and issue management that Dormann, as CEO of Hoechst Group, prioritised corporate communication. The strategic communication development from Hoechst since 1994 happened in three phases (Heine & Mautz, 1995): 1995 was the year of de-frosting, the beginning of the transparency and information offensive. In 1996, Hoechst began to set-up a new internal and external network with stakeholders, with the objective of establishing de-centralised communication channels. The discussion around the guiding principle of sustainable development started in 1997. Hoechst became a veritable trend-setter in the German chemical industry, and implemented good corporate communication into its mission.

In 1995, Dormann began to group managers from various areas of corporate communications. This corporate function became the direct responsibility of Hoechst's CEO. The objective of corporate communication was the formation of communication processes that were relevant for the Hoechst Group. The estimated target audience in 1997 encapsulated around 5 million people (Corporate Communication, 1998). The main responsibilities of corporate communications are:

- Business and financial communications;
- The international positioning of Hoechst;
- Communicating the strategic development of the group:
- Crisis communications in situations of group relevance;
- Continuous cultivation of relations with opinion leaders and interest groups.

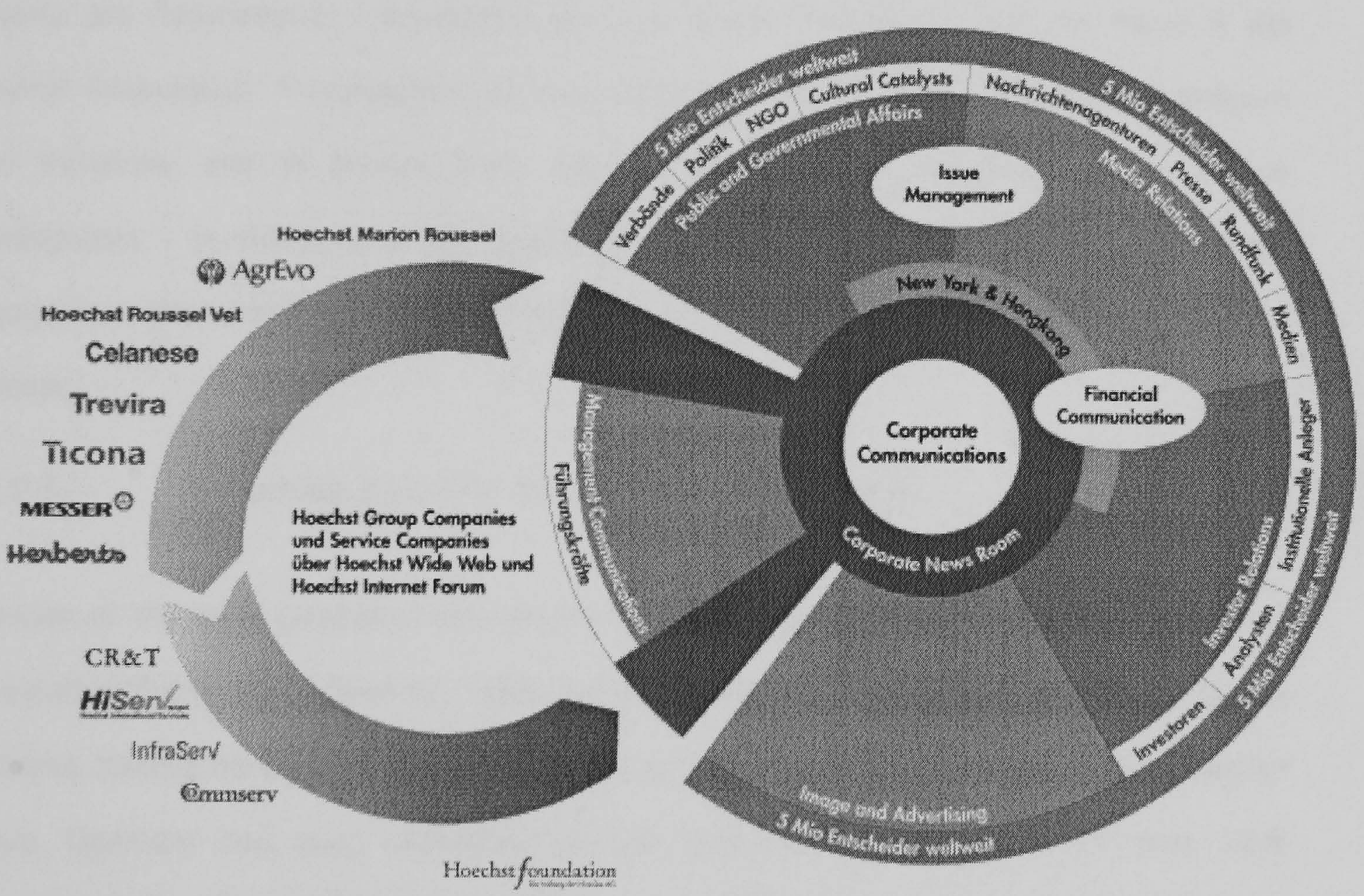

Figure 15 Hoechst's Corporate Communication Structure 1998 (Source: Hoechst AG)

By communicating openly with its employees, shareholders, as well as the media, the political community and the general public, the corporate communications department aimed at creating and cultivating a climate of understanding, trust and acceptance able to enhance corporate reputation and to contribute positively to long-term value creation. Corporate communications shaped and steered those communication processes that were of importance and relevance to either Hoechst as a holding company or the Hoechst Group in its entirety. By contrast, the communication activities of the group companies focus on market- and product-related issues.

Corporate communication covers economic, social and environmental issues. Group companies have autonomy in their communication organisation, but have to align their group activities to a corporate centre. There is a direct structural link with the operational management of the group. Communications are linked with the operational management and the top management.

The main philanthropic activities, linked to a certain extent with the business activities of Hoechst, are externalised in the Hoechst Foundation. This foundation promotes projects that are on the interface of culture, science, business, and society. "The criteria for selecting projects are international, inter-disciplinary and future orientated", said the head of the Hoechst Foundation. The objective of the foundation is to identify thinkers and managers from tomorrow, and to provide them with the opportunity to contribute to sustainable development – in the form of art, scientific or political contributions, as well as societal engagement (Hoechst Facts, 1998). Therefore, the foundation is part of the communication concept.

5.1.2.5 CHANGING IDENTITY THROUGH RE-STRUCTURING

Because of the early products from Hoechst, people that worked for Hoechst in Frankfurt were called 'Rotfabriker' (Bäumler, 1988). Since 1997, Hoechst no longer runs any operating business, having transferred the responsibility to the companies that make up the Hoechst Group. Dormann has been nominated as the most radical manager of the year 1998 (Spiegel, 1998). He changed the company so much that stakeholder asked the question: Who is Hoechst today? The German weekly magazine Spiegel (1997) asked: "Is Hoechst still German?"

In the life sciences business, Hoechst has expanded its global market position. The company is strengthening its activities in biotechnology by forming strategic alliances and investing in biotech companies. Pharmaceuticals mean for Hoechst, developing drugs and launching them on a global basis. On its way to becoming a life sciences company, Hoechst in 1996 bought Plant Genetic Systems (PGS) in Amsterdam for more than DEM 1 billion

(Handelsblatt, 11 September 1998). Between 1994 and 1998 Hoechst acquired pharmaceutical companies with a value of DEM 20 billion (FAZ, 6 May 1998). The strategy of Dormann is under constant criticism because he bought and sold companies (WiWo, 1998, no. 12). In 1998, there were speculations about a take-over of Hoechst. The 1998 stock exchange value was DEM 43.9 billion (WiWo, 1998, no. 34).

The headquarters used to manage its subsidiaries centrally from Frankfurt. Today, the corporate centre manages a portfolio of autonomous, affiliated companies. It is not directly involved in the management of its subsidiaries. The corporate centre can only give recommendations. However, it has to manage the portfolio, and therefore the affiliated companies are controlled through the corporate centre. Regardless of the different names and logos of the subsidiaries, Hoechst is the main brand name and therefore the most important capital from the standpoint of reputation. The remaining product of Hoechst as a management holding is the share.

Traditionally, it was one company operating in Frankfurt. Today, Hoechst has various operations at Frankfurt Industriepark: The represented business units are chemicals, special chemicals, pharmaceutical, synthetic materials and technical substances. Various Hoechst owned companies are present: AgrEvo (Biotech), Trevira (fibre activities), Solvay (flour chemicals) and DyStar (textile paint substances). Frankfurt Industriepark is also the home for many central departments like finance and accounting, legal affairs, patents and insurance, information technology and communication, personal as well as central research and development (Werk Höchst, 1998).

Hoechst has now changed from a company that was embedded in its local communities and identified by its chemical products to a global acting company with a new business focus that often can, not be directly identified by its products, but by the development and application of technologies that affect societies. The changed identity of Hoechst also requires a new approach to corporate development – that of sustainable development.

5.1.2.6 ENVISIONING SUSTAINABLE DEVELOPMENT

As an international group of companies operating in life sciences and industrial chemistry, Hoechst actively promoted sustainable development. The basic aim was to meet people's needs in a long-term and responsible way. Health and nutrition are the new business areas. By focusing on these core life-science fields, Hoechst's objective was to help to further social and economic progress. In production, Hoechst's group companies strove to continuously improve occupational health, safety and environment protection standards. In the quest for innovative products, the companies pursued an integrated approach that covered the entire life cycle of a product from raw material to recycling. Every company had to find its own way of integrating sustainable development into practice.

A sustainable development study conducted by the Öko-Institut in Darmstadt/Germany together with Hoechst assessed two different products in order to find ways of incorporating criteria such as sustainability in the product and strategic planning process. Before consulting its stakeholders, Hoechst did not really understand the issue of sustainable development and its implications for business practice. A corporate communications manager said:

> *We are good in science and technology, research and development, production and marketing. Our business plans have a span of five to ten years. However, we don't know what this means to the environment or the society. We need to develop or acquire new competence that allow us to consider this as well and maybe to draw scenarios that will happen within the next fifty years to foresee our likely social and environmental impact.*

In 1997, Hoechst became a member of the World Business Council for Sustainable Development (WBCSD), a coalition of 123 international companies that aimed to transform the guiding principle of sustainable development into business practice. Hoechst aimed to operate profitably, meet customer needs efficiently while conserving resources, lowering the environmental impact of production operations and products, and improving the qualification of employees the world over.

Stakeholder pressure for accountability of business performance, a viable portfolio, and innovative strength led the company to sustainable development. Hoechst considered its contribution to sustainable development as creating innovative solutions for combating the health and nutrition problems of a growing, and increasingly ageing population. The company saw biotechnology as the key to meeting these needs.

An important prerequisite for environmentally friendly socio-economic development is a realignment of the communication process. The company engaged in establishing a dialogue, able to transcend cultural and generation boundaries, and which brought those affected by the business activities into dialogue. Hoechst's co-operation with the Öko-Institut, a German environmental research centre and leading green NGO is just as much a part of this policy as Hoechst's membership of the WBCSD and the creation of the Hoechst Foundation. Other existing co-operations are Hoechst's membership of the German Chemical Industry Association and Pharmaceutical and Biotech Industry Associations; Hoechst's Community Discussion Group and various co-operations and relations with local authorities and governments. Behaving responsibly towards society and the environment plays an essential role in the company's policy. In its 1997 annual report Hoechst states:

> *Responsibility: To us, responsibility means harmonising economic, social and ecological requirements.*
>
> *Value Enhancement: Our long-term strategy is aimed at achieving sustainable increase in value.*

However, a corporate communications manager underlined what the purpose of Hoechst is and what it is not:

> *Hoechst is innovative, and one of world's leading chemical companies. Its ultimate objective is to bundle all its resources and capabilities to become one of the driving life science companies. With our products, we will enhance the quality of life. We strive not to harm the environment in any way. However, social responsibility is not a subject for Hoechst. We are not a welfare company or a political body, but we have always played an active role in our neighbourhoods. Our responsibility is sustainable development.*

5.1.2.7 AVENTIS – HOECHST DISAPPEARS

Hoechst will have ceased to be part of the industrial chemicals sector by the year 2000. By taking companies public or selling the business to strong partners, Hoechst opened new growth opportunities and unlocked values. Life-science is an industry sector with huge market potential, but also with far-reaching wide social implications. This implies enhanced corporate social responsibility.

The new companies are Celanese, with Hoechst's chemical business, and Aventis, the merger with Rhône-Poulenc, incorporating Hoechst's life sciences activities. The merger was announced on 1 December 1998 and approved by the by Hoechst's Supervisory Board on 4 May 1999 (Spiegel, 1998). At the special general meeting on 15 July 1999, 90 per cent of shareholders gave their approval for the merger (Hoechst New, 1999).

In February 1999, Hoechst's position within the DAX system began to change from industrial chemicals to healthcare and pharmaceuticals. When this is, finally, accomplished, the name Hoechst will no longer exist. Aventis will be the market leader in life sciences. The new company will have an R&D budget of around USD 2.4 billion (Mumm, 1999). However, potential social risk is still present – in some business areas less, than before, and in others, more. Society is very concerned with gene-technology, one of Hoechst growing applied technologies. Hoechst operates in developed and developing risk societies. Societies are demanding a positive impact on the quality of life.

5.1.3 *Business's Social Reintegration Features*

Hoechst faced a constantly bad reputation as a polluter. It was hard to understand company's business because of the limited information that was available. Hoechst reduced its social engagement. Communities and NGOs became driving pressure groups towards Hoechst as an 'open company'. The demand for more information and understanding about the impact of business processes on society drove the company into its 'de-frosting and de-rusting' strategy. Transparency rather than a 'Wagenburg mentality' lay at the heart of their strategy, and became an integral part of each step on Hoechst's way towards becoming a life sciences company. At the same time, social risk management changed from technocratic to social demand-orientated. Not only was the new business focus closer to societies' wants and needs, but the management processes aligned themselves towards these. Towards social reintegration, Hoechst's set course was transparency directed and social demand orientated.

To put this course into action Hoechst needed to be connected to society. Social risk was levelled through openness with respect to stakeholders and the endeavour of social demand anticipation. Two-way stakeholder communications became a priority for Hoechst rather then the circulation of glossy brochures and lobbyism. After an enforced learning process, Hoechst began to consider its stakeholders as potential communicators. However, certain issues are oriented towards a certain audience. Therefore, efficient communication requires a network to place, circulate and receive information as needed. Consequently, elements of the social connecting processes from Hoechst were stakeholder communication and networking.

Setting a new course and starting connecting processes were important to generate social capital. Hoechst, traditionally a Frankfurt community-linked business, lost its identity. It was no longer a polluting chemical giant, but a company which took care of its employees and communities for life. Not only did the transition towards life sciences cause part of the identity loss. Since Hoechst started to become a global player, stakeholders could not see the wider impact. They felt neglected and rejected by them. There was no way back to Hoechst's traditional identity. To establish a new identity was not only Hoechst's objective but also a resource generated by and embedded in Hoechst's stakeholder communication and network.

Two main issues emerge: Hoechst's identity, and its interpretation. In the 1980s, Hoechst saw reputation as something that could be bought, and essentially, as an add-on. However, painful experiences like the aftermath of chemical accidents and positive reputation enhancement through experiences such as the sustainability project with the Öko-Institut, made Hoechst aware of the importance of reputation. Hoechst recognised reputation and identity as a valuable intangible resource on its way towards sustainability and for prosperity, not only in critical situations but also in its day-to-day management. Reputation, for Hoechst, was linked to its position within society and identity. Its connecting processes managed both. Therefore, identity and reputation are interlinked elements of Hoechst's social capital generated through social reintegration.

The following table summarises business social integration features under three headings:

Set Course	Connecting Processes	Social Capital
▪ Transparency Directed	▪ Stakeholder Communication	▪ Identity
▪ Social Demand Orientated	▪ Networking	▪ Reputation

Table 9 Business's Social Reintegration Features

5.2 DEVELOPING A STRATEGY-TOOL WITH AN NGO

5.2.1 A David and Goliath Relation

The Öko-Institut was founded in 1977 in Germany. Its foundation was closely linked to the conflicts then surrounding the construction of nuclear power plants. Citizen groups involved in these conflicts had repeatedly found science and research to be on the side of those who were promoting dangerous, large-scale projects. The purpose for setting up the Öko-Institut therefore was to create a research institution independent of industry and governments, which orients its scientific work to ecological criteria and environmental considerations. The Öko-Institut came a long way from a confrontation-orientated environmentalist to be an independent and critical, yet solution-orientated research institute. Today, the institute works not only on companies and their wider impact; the NGO also works with companies. Scientifically, they focus on sustainability issues in six areas: genetic engineering, environmental law, nuclear safety, chemistry, energy, and transportation.

At the time of the major accident at the Hoechst site in Griesheim, a district of Frankfurt/Germany, during the height of the German Carnival festivities in 1993, nobody would have believed that Hoechst and the Öko-Institut would ever work together. That time marks the zenith in the history of intimate enmity, between the Öko-Institut – an independent research institute firmly rooted in the environment movement and widely known for its critical stance – and Hoechst – a chemical industry giant. Nor would this have seemed likely when, with the vigorous scientific support of the Öko-Institut, the production of genetically modified insulin, or of the BASTA total herbicide and of CFCs and R134a refrigerants, or the new construction of the hazardous waste incineration plant in the Hoechst works were criticised, delayed, ecologically optimised, or even prevented.

Most conflicts arose over facilities and products. At first, the Öko-Institut challenged Hoechst primarily on environmental issues. Later social issues played an important role. However, the Öko-Institut was well known as a campaigner but not as a constructive partner for companies. In 1990, after the Rio conference on globalisation and the environment, a new buzzword entered the business world – sustainable development. The question, which became strategic for Hoechst on its way towards a life sciences company, whether one of the largest chemical groups in the world can orient itself on the guiding principle of sustainable development, goes much further. Not only was the critical public sceptical about this, but Hoechst itself remained unsure. The company and the Öko-Institute felt the outcome of this important question to be by no means a foregone conclusion, but positive results could only be achieved by working in tandem.

Hoechst was viewed as one of the more intractable chemical multinationals. This certainly called for a good deal of pragmatism on both sides, as a precondition for the success of this partnership. Both sides could hope for positive side effects: Hoechst had the opportunity of mending its dented public image and the Öko-Institut was placed in a position where is could prove its ability to deliver not only critical science, but also implementation-orientated strategy advice 'in the lion's den'. There were hazards, too: Beginning with the risk of early failure, which would have confirmed the prejudices of the sceptics in both camps, through to the results, which were positive in theory, but probably difficult to implement.

5.2.2 From Combat to Co-action

One of the specific outcomes of Hoechst's joint project with the Öko-Institut has been the definition of a strategic management tool for sustainable product assessment PROSA (Product Sustainability Assessment). The project was divided into two phases, each of which had a different focus. While the first was concept development orientated, within the second, the concept was applied and refined. However, before working together, the partners had to leave the battlefield and prepare for joint action.

The process of partnering begun by the Öko-Institut was followed up by Dormann's public declaration about Hoechst's 'defrosting and de-rusting strategy'. One year later, Hoechst approached the Öko-Institut with the following question: How can the guiding principle of sustainable development, which Hoechst views as being decisive for its future development, be concretised and integrated into operative management? In the winter of 1995/96, the Öko-Institut undertook a pilot study in which the fundamental blueprint for a sustainability-oriented corporate management was developed.

The results were debated intensively and the decision was taken to test the proposals. This is a surprisingly courageous step if one considers that in the meantime (in January 1996) Griesheim II had taken place, a new industrial accident liable to arouse nation-wide alarm. The Öko-Institut, as before, supplied the public with information and expertise, and strongly criticised Hoechst. The second phase of the project went ahead regardless of Öko-Institut's criticism; and this was proof that Hoechst was concerned with more than just repairing its battered public image with the support of the Öko-Institut. The concept of sustainability assessment was not only refined, but also applied practically within two business units. Today, the partnership continues on corporate and is replicated on subsidiary level. The following five sections describe the partnership building process in detail.

5.2.2.1 LEAVING THE BATTLEFIELD

Shortly after Dormann became CEO of Hoechst in 1994, he accepted an invitation from the Öko-Institut to participate in a round table discussion. This took place in the castle of the head of the Öko-Institut. A round table participant from the Öko-Institut remembers the initial reason for inviting Dormann:

> *We asked Dormann to participate in our round table because as Hoechst's new CEO, he introduced a strategy that promised more ecological and socially responsible business activities.*

Hoechst's MD, with responsibility for technique and the environment, conveyed current thinking at this time in Hoechst, as follows:

> *When I became MD for technique and environment, I was just nominated, together with [the] head of corporate communication I decided that we should approach the Öko-Institut. In the meantime, unexpectedly, the Öko-Institut invited us with the objective of finding out whether there are any commonalties with our agenda.*

The conversation was held behind closed doors and no commitment was required. Dormann attended this meeting together with Hoechst's head of corporate communication. Hoechst was not the only private company that was invited. Leading representatives from other companies and stakeholders were also present. The focal point of the discussion between the Öko-Institut and Hoechst was the long-standing dispute with regard to chlorine chemistry, its products, and its production. However, the discourse differed from a traditional battle of words. The Öko-Institut did not criticise any specific process or product of Hoechst. Rather it was a general discussion, with a strategic character in mind. Participants characterised the meeting as open and constructive.

Hoechst began to align its agenda with the principle of sustainable development. Questions about common ground between the Öko-Institut and Hoechst led to the ambition to engage in a closer dialogue, and to discuss the possibility of a joint sustainability project. At this time, Hoechst could not propose any specific, realisable project, which might be acceptable to the Öko-Institut. One year later, in 1995, after Hoechst integrated the guiding principle of sustainable development into its policy; Hoechst approached the Öko-Institut with a view to co-acting on a concrete project. Hoechst indicated only at the beginning that they wanted to discuss further issues. However, their ultimate objective was to gain an understanding of the concept of sustainable development and its implications for Hoechst. An NGO representative asked Hoechst at the general meeting in 1995 whether the company "would allow an independent research institute to assess their business practices, referring social and ecological impacts", said Hoechst's MD, with responsibility for technique and environment. He added: "This was the best advice that we could get." Hoechst was looking for an external partner able to advise the company on its strategic approach. The management felt that the leading consulting firms lacked competence. Hoechst's project leader as leader of the joint project with the Öko-Institut, commented on the decision in favour of a partnership with the Öko-Institut:

> *We needed an external partner who could advise us. One first thinks of consulting companies like McKinsey or ADL [...] We needed someone who was possibly loaded with conflict; we needed someone with extreme, enemy perspective.*

The Öko-Institut possessed the necessary professional expertise. In addition, the company believed that the reputation of the NGO could have a positive impact on Hoechst's dented image.

However, both partners ensured that this would not just be a Public Relation (PR) initiative, in the sense of enhancing the reputation of one partner at the expense of the other. The head of the Hoechst Group work council was suspicious of the joint project.

Even in retrospect, he saw the situation slightly differently:

> *We at Hoechst are three times as qualified as the people from the Öko-Institut. However, there is a difference whether someone does it internally or if you commission an outside independent institute without a muzzle.*

Finally, the Öko-Institut accepted Hoechst's proposal, despite some internal differences about co-operation with the 'enemy'. Hoechst officially commissioned the Öko-Institut to develop a product assessment tool in co-operation with company experts. The company covered the costs of the project.

5.2.2.2 PREPARING FOR CO-ACTION

The aim of Hoechst and the Öko-Institut was to transform any potential conflict between them into benefits for both sides, within the context of sustainable development. Looking back at the beginning of the partnership, Hoechst's MD, responsible for technique and environment said, "one needs at least some polarisation." It was the first time that Hoechst invited an NGO to participate in a joint project. Retrospectively, a corporate communication manager from Hoechst AgrEvo described the process of the emerging partnership:

> *It was not a very structured process. Most important were the people, the backup from the Board of Directors and partners on both sides of the co-operation, that do not sit in their showcase waiting for the strengthening of their ego. You need reconnaissance, dread reduction [...] and most important the building of trust – mutual trust.*

The Öko-Institut built a project team with members of its chemical division. This consisted of researchers and analysts, as well as senior managers. The only permanent member of Hoechst's project team was the project leader, Hoechst's chief economist. All other members changed, as they were needed for specific project tasks.

The project teams had Hoechst's top and senior management back up as long as they were operating in the provided corridor. At a strategic level the partners asked each other questions about the project and related issues. There was no specific form or forum for it. Experiences, perceptions, ideas, and expectations were shared. The impression emerged that both sides would gain something out of this partnership. However, this did not help the process of focussing on a specific project task. Rather, it enhanced the level of trust at least at the strategic management level. "After a relative short time of about eight weeks, we established a certain level of trust," said Hoechst's project leader, looking back to the beginning. A member of the Öko-Institut saw the project not like

> *[...] a project where one says 'ok where do I have to sign' and then one goes back and puzzles for about two years within its own walls, before one goes to the public with an outcome, but it was a partnership project.*

Members of the Öko-Institut team visited Hoechst sites and started to interview operational managers without the participation of Hoechst's team. They asked questions that were related to the project, but hard to understand by business people who had never really thought about these new issues and did not have a clear understanding of the guiding principle of sustainable development. This procedure caused some mistrust and misunderstanding between members of the Öko-Institut and Hoechst's managers. Being asked for the cause of failure, a corporate communication manager compared the beginning with a traditional consulting project:

> *It was like a bad consulting project: The consultant comes and writes a question down; the person who requests the advice responded to the question exactly in the way in which he had been asked and says; ok, I have done my duty now go away. I have more important things to do than answering your questions.*

Without a common base for mutual understanding, the partners felt it was impossible to continue. In 1995, a two-day workshop was jointly organised. Participants of this event were the project team from the Öko-Institut, Hoechst's MD with responsibility for technique and environment, and heads of strategic business units, Hoechst's project leader, corporate communication managers, and production and service managers.

The workshop achieved two things: Firstly, a concept that ensured a better understanding of each other – a common language. Secondly, a link between Hoechst's economic issues and the issues of sustainable development – the rationale for business people. It was impossible to join the specific antagonistic perspectives. However, the partners needed a common, mutually understood base.

Reviewing the workshop, a senior manager from Hoechst summarised:

> *At the end of the workshop we had not reached a consensus but a mutual understanding. The problems of disagreements and refusals that we had at the beginning disappeared and were replaced with a mutual understanding of the economic, ecological and social issues, as well as its links.*

The Öko-Institut re-interviewed production and service managers. They generated interest and commitment for the project on Hoechst's operational level. Hoechst established a steering committee with members of various areas of Hoechst and the Öko-Institut. This committee was under the supervision of Hoechst but it had autonomy, referring the realisation of the joint project within the given corridor. Looking backwards, Hoechst's MD responsible for technique and environment said: "The Öko-Institut and Hoechst became established as evenly matched partners."

5.2.2.3 CONCEPTUALISING THE STRATEGY TOOL

How should Hoechst integrate the principle of sustainable development? There were not enough experiences that could have provided a reliable answer to this question. Hoechst was not competent in the area of sustainability. Although the company said that it aims towards sustainable development, a member of the Öko-Institut complained that Hoechst is still mainly profit orientated:

> *[The] head of Hoechst's corporate communication is only interested in corporate success and the right hand of Dormann who want to enhance the shareholder value.*

However, this was not a decisive obstacle for the joint project. On the basis of the agreement about the fundamentals of sustainable development and the meaning of the concept, it was crucial to set definite boundaries for the project. These were concerned with the depth and the width of the task that needed to be accomplished. It was limited both to the competence and the resources of the Öko-Institut, and to the extent to which Hoechst would allow and could allow the Öko-Institut to look behind its cards. "It was not so much a matter of providing insight into dirty business activities rather than the fear to reveal business secrets," commented a Hoechst Corporate Communications manager.

The Öko-Institute was an expert in social and ecological issues. Hoechst was an expert in financial and business-related issues. The different capabilities of each were reflected in their shared and divided competence in decision-making. This approach was accepted from both partners. However, they aligned all of the project decisions. Given the project-related changes, which needed to be undertaken, the partners took joint decisions to reset the project course.

Phase one, the conceptual phase of the joint project, took place between December 1995 and March 1996. The Öko-Institut had to address the issue of what sustainable development for a global operating chemical company actually means, and more specifically, how the guiding principle of sustainable development could be integrated into the SMP of Hoechst (c.f. Ewen et al., 1997). The first phase lay in the hands of both partners. Whereas the Öko-Institut developed a framework for the adaptation of Hoechst's corporate strategy on a corporate sustainability concept, the company worked on possible business implications. Experts from Hoechst and the Öko-Institut participated in the final evaluation of the possible concept impact on Hoechst's corporate strategy and SMP.

A further part of the conceptual phase involved Hoechst's strategic management team, with consultation of experts from the Öko-Institut, who were given the task of redesigning the SMP. This process was aimed at establishing a monitoring and control system for sustainability performance. Hoechst's project leader described the intention retrospectively:

> *Besides ROI, technology position and other economic indicators, we intended to integrate two sustainability indicators, an ecological and a social indicator. Furthermore, we intended to change the system character through sustainability reports at various levels.*

Both sides experienced difficulties: Hoechst because of the integration of unfamiliar social issues into the management process which remained difficult to understand; the Öko-Institut, because it worked together with its oldest and most formidable enemy. Internal argumentation within the partners prevented a negative impact on the partnership. Phase one, ended with a concrete proposal for the integration of a sustainability assessment concept.

5.2.2.4 APPLYING AND REFINING THE STRATEGY TOOL

At the end of 1996, phase two of the project began. The proposed corporate sustainability concept, together with two operational units from Hoechst, known by the company as business lines, should be further developed and applied on a trail basis. First, the corporate sustainable development concept was developed so as to enhance product application. This was the operationalisation and the test of the concept at a production and market level. The Öko-Institut asked Hoechst for two products on which they could test the concept. Hoechst without consulting the Öko-Institut decided on the product lines to which the concept would be applied and refined. Hoechst's MD for technique and environment justified this decision-making retrospectively. He said that he "would like to avoid seeing behind this only a dextrous, tactical move. This is more. This is somewhere already an expression of knowledge of human nature."

Business line managers strengthened the company's expert team, whereas from the Öko-Institut the same experts were still involved. The emphasis of phase two was on the development of a tool and the realisability of its application. The experiences that were gained from this process have been applied in the discussion about the strategic relevance and its applicability for Hoechst. The discussion and experience exchange was a continuous joint process.

Besides any further content related development of the concept, the project structure itself changed. The difference in comparison with phase one of the project was that operational units were very closely involved. The suggestions form the Öko-Institut from phase one were applied. The role of the Öko-Institut was now to supervise the process and to integrate collected experiences in the suggested concept. At expert level from the Öko-Institut and Hoechst, the findings of the application at business unit level were reflected on the suggested concept. It had been agreed that it was applicable as a product assessment tool. Whereas in phase one the work had been done by the Öko-Institut and from Hoechst came requested information, at phase two it was the other way around. However, it was Hoechst who decided not to change its SMP.

Recalling the decision, a corporate development manager commented:

> *After the Öko-Institut had finished its study, and we had not said anything to the public, we concluded that it is not possible to change the SMP, for two reasons: First, it is a very complex process [...] and with the integration of sustainable development, it is likely that the efficiency of this process will suffer. Second, we were rethinking what we wanted to add to the SMP, and finally, we added only the quantifiable sections of the sustainable development concept. In general, we think that sustainable development comes before the SMP, and therefore, may require a separate process.*

Hoechst did not want to place the responsibility for decision-making with regards to business and market issues into the hand of its enemy, even if had they begun to become partners. Meanwhile, the Öko-Institut, for its part currently considers companies lack sufficient competence to assess their social and ecological impact. Therefore, they tried to reserve sovereignty for social and ecological issues. Hoechst's project manager thought that

> *[...] it would be possible to express the sustainability of a product quantitatively with a factor between one and five which could then be applied to categorise products or even production facilities and technologies.*

The Öko-Institut made it clear that this would be impossible. Criteria are soft, qualitative, and therefore individual. Only the dimensions of sustainable development in the context of Hoechst's business activities could be applied across products, facilities, and technologies. This is not a basis for benchmarking. The measurement issue led to new tensions between the partners. However it was more a measurement that concerned Hoechst's managers. A strategic business unit (SBU) leader opened one of the project meetings with: "If this project leads at the end to just another audit then I will quit today."

Most of the official external communication with the media or the community, like the presentation of the project findings, was carried out as a joint action. This was important since the partnership began with a fear that it could end in a PR game, – with every side fighting for its best value. The partnership with the Öko-Institut does not end at this point. Rather, it marks the beginning of a longstanding, fruitful continuing co-operation.

5.2.2.5 CONTROLLING AND CONTINUING CO-OPERATION

Continuation of partnerships often depends on the level of success achieved. However, there was no quantitative measurement of effectiveness or efficiency in the case of the partnership, – or the joint project, – between Hoechst and the Öko-Institut. Hoechst was concerned with the observance of planned milestones. The attainment of these was implicitly linked to the adherence to a not given budget. The company felt unable the set quantifyable budgets to control the efficiency of the project process. Time was a major issue for Hoechst. A most obvious positive impact of the joint project for Hoechst was the polishing influence on its public image.

Hoechst's project leader retrospectively summarised the controlling issues:

> *We could not keep the planned milestones. [...] Critical, therefore, was that we went far beyond our planned sub-deadlines, which significantly postponed the final accomplishment of the project task. The reason was that on one hand we had no experiences in this area, and on the other that both business lines were in a phase of re-structuring. [...] It was not possible to measure the economic efficiency of the partnership because the project was based on three pillars – economical, ecological and social.*

It was most important for the Öko-Institut not to lose face, nor to lose its reputation as a critical and challenging independent force in the environmental movement. It was critical that they monitored Hoechst's activities and its ecological and social impact while working together with them. It was agreed at the beginning of the partnership that the Öko-Institut would continue to criticise Hoechst if they felt the need for it. In 1996, during phase two of the project, Hoechst underwent another major chemical accident, about half a year after they began to collaborate with the Öko-Institut. Again, the Öko-Institut practised its well-known hard criticism against Hoechst and Hoechst its anti-position. A member of the Öko-Institut remembers this time of tension between the partners:

> *As I know today, there were misgivings on both sides as to whether the project would succeed or fail. We believed at this moment in the seriousness of Hoechst for the project when they decided not to quit our co-operation after this massive criticism. That Hoechst continued to create these tensions and continued the partnership was an indicator of initial success. It also assured us of our endeavour to continue the partnership after the accomplishment of the specific project task.*

However, there was still a certain level of rejection for partnering with Hoechst within the Öko-Institut. An analyst for chemical production facilities refused to comment on the co-operation: "I do not agree with our approach to collaboration with business. I cannot elaborate on this until the internal finding process of the Öko-Institut is over." The Öko-Institut used the partnership with Hoechst to re-orient itself and to align the internal thinking and structure with the external demand for business collaboration.

As Hoechst's Board of Management was already deliberating a realignment of the group, the proposals of the Öko-Institut were taken on board in a process of change that had already begun. This had implications for the joint project and the application of the developed product assessment tool within Hoechst's SBUs. Because of the new corporate structure, there were no longer any SBUs. The corporate centre that initiated and led the project can only suggest that the affiliated companies should apply new concepts. Dormann introduced and explained the project findings at the annual international meeting of Hoechst's affiliated companies in 1997. The corporate centre integrated sustainable development in Hoechst's group policy and corporate strategy. The link to business strategy needs to be developed and integrated separately by Hoechst's affiliated companies. However, they could build on the experiences gathered within this partnership and could use this partnership for specific business purposes. Some subsidiaries established a regular consultation process, while others started with new, more business-specific joint projects.

5.2.3 Business-NGO Joint Project Features

The partnership between Hoechst and the Öko-Institut is rooted in conflict. Here, two former enemies began to work together. Whereas Hoechst wanted to integrate the principle of sustainable development into its business, the Öko-Institut fought to raise the awareness of the companies with regards to the connectedness of economic development, social benefit and ecological conservation – the balancing elements of sustainable development. Consequently, the partners discovered that they had a common agenda in promoting sustainable development. However, this was not the only purpose for which the company worked with one of its major critics, and vice versa. While Hoechst's competence is mainly based on business, Öko-Institut's competence is primarily societal-orientated. With regards to the three elements that constitute the principle of sustainable development, the partners had complementary competencies with respect to the achievement of a common agenda.

To establish a partnership, Hoechst and the Öko-Institut had to overcome their suspicion of each other's behaviour, and the intention behind it that was generated by past conflicts. Before the partners started to talk about co-acting, they came together to get to know and understand each other, to gain knowledge of: what, how and why one does things. Talking to each other and visiting each other's sites established a climate of rapprochement that was accompanied by both understandings and misunderstandings. However, no misunderstanding was left unresolved. Both partners were committed to mitigating suspicion by filling the gap between them with trust in each other.

Through this lengthy trust-building exercise, the desire grew in each camp to find out whether trust could be the base for partnering. The Öko-Institut wanted to prove that it could be constructive, while Hoechst needed the PR challenge and the competence of the Öko-Institut. However, at no point in time did the partners consider an official contract through traditional business negotiations. Rather, the partners agreed on a project task and principles of operations that were not fixed in any way. Both partners contributed to the project design. The resulting covenant was mutual trust based with a joint project agreement.

The project focussed on the impact of Hoechst's products on society. To fulfil the project objective it was inevitable that the competencies of both partners should be linked. The Öko-Institut had the reputation of an independent critical research institute with core competence in social and ecological issues, related to various industry contexts. Media and other pressure groups helped to raise Öko-Institut's profile. Hoechst had the business competence that was needed for this project and the critical business and finance world behind them. If one of the partners had not accepted and considered the competence of the other, the project could have failed. Therefore, it was an interdependent power relationship that was competence based. Whereas Hoechst's Board of Directors provided a corridor for the project, Hoechst's project managers controlled time and costs as far as possible. Members of the Öko-Institut continuously observed to what degree Hoechst acted as social and environmental responsible. They reported their findings internally, to other pressure groups and to the media, as they did prior to the partnership. Both partners accepted this interdependent governance that was competence based and an expression of a reciprocal power balance.

A core element of the partnership between Hoechst and the Öko-Institut was the joint project. After formulating the project boundaries, a project plan was developed that divided the joint venture into two phases. The final stage of the co-operation was an evaluation and information dissemination of the data gathered. Formulating the project task, defining project boundaries, developing the project plan, conceptualising and testing, and finally evaluating the results were elements that constituted a life-cycle development of the joint project. Within its different stages, the partners experienced the limits of a sustainability assessment tool that was initially intended to be integrated into Hoechst's SMP. The Öko-Institut learned that theoretical, optimal, social and environmental concepts cannot always be integrated into business without specific adaptation. Hoechst, meanwhile learned that in order to implement the guiding principle of sustainable development, it is crucial to consider secondary and tertiary potential, social and ecological risks. By remaining open to mutual learning, the partners achieved durability partly, but not exclusively for this joint project evolution. The partnership is now continuing with new projects.

The following table summarises business-NGO joint project features under four headings:

Purpose	Covenant	Power	Evolution
▪ Promoting Sustainable Development ▪ Combination of Competence	▪ Mutual Trust Based ▪ Joint Project Agreement	▪ Competence as Power Base ▪ Reciprocal Power Balance	▪ Life-Cycle Development ▪ Mutual Learning for Durability

Table 10 Business-NGO Joint Project Features

5.3 BUILDING A COMMUNITY DISCUSSION GROUP

5.3.1 Hoechst and its Neighbourhood

More than 135 yeas ago, Meister Lucius and its companions founded Hoechst. The company was located at Höchst, on the river Main. Only a few people lived near the factory. Today, Höchst is a municipal area of Germany's growing financial capital, Frankfurt, and Hoechst's Frankfurt site covers more than 4 km^2. In 1993 when Hoechst began to renew its relations with surrounding communities, the Frankfurt site had a workforce of around 30,000 employees. The company paid DEM 2 billion is salaries, accounting for approximately DEM 600 million income tax. Hoechst paid around DEM 1 billion in corporate tax, of which DEM 100 million went to the city of Frankfurt. Thirty kilometres around the Frankfurt site, the company had more than 9,000 suppliers (Hoechst Annual Report, 1993).

Hoechst is one of the most important economic factors in Frankfurt. However, given the company's location within the city, it has not only business neighbours, but local authorities and local NGOs are neighbours, as well as the church, federations and Hoechst's surrounding communities. Community members with an interest in similar issues formed so called citizen initiatives or special mother initiatives, with common interests in children-related issues. These initiatives were the means of contact of community representatives and Hoechst.

Since its very beginning, Hoechst was involved in urban development, social projects, and had an employee responsible policy. However this engagement and commitment diminished. The community became increasingly unaware of the nature of the company's products, and its selected manufacturing method. Since the 1980s, external pressure on Hoechst with regard to social and environmental issues increased on the part of politicians, the media, NGOs and especially community groups. The various pressure groups hardly talked to each other and did not co-ordinate their actions. Traditionally, communication between Hoechst and its stakeholders was only one way. The company did not listen carefully to the concerns of its neighbours. Released information was very limited. The company built a 'Wagenburg' and became less and less transparent.

In 1993, the most critical chemical accident in the history of Hoechst in Frankfurt took place. The incident had an extensive impact on Hoechst's surrounding communities. This was the impetus that forced the company to change its relationship with its neighbours, and to build partnerships. Since then, the aftermath of the various breakdowns increased the velocity of change and enhanced internal perceptions of the company's social and environmental induced risks. The management generation changed and a more open communication began. Hoechst developed a management approach to 'urban sociable chemistry'. In connection with the release of the transition strategy towards a life sciences company, Dormann recognised that: "Only that which can be communicated is also realisable."

The challenge of repositioning themselves within the community as a risk-preventing company was further reaching than Dormann's comments. It certainly called for a community partnership with positive effects for both partners: Hoechst learned how to cope with a diverse, rather than unified spectrum of social and environmental demands and how to make use of the knowledge of the community. The community proved it was capable of acting as a valuable partner to solve social and environmental challenges and conflicts. There were hazards too; beginning with not finding a proper form for this partnership through to not finding agreements and not being able to implement solutions for the concerned issues. Consequently, partnership meant the transition from community affairs, a one-way management approach, to community relations, a two-way management approach.

5.3.2 *From Community Affairs to Community Relations*

The partnership between Hoechst and its surrounding communities, which only became more prominent in the aftermath of critical chemical accidents, is concerned with more than just solving conflicts. Schlimme, spokesperson of the green citizen initiative 'Höchster Schnüffler un Maagucker'[4], had the opinion that "Hoechst shall stay in Frankfurt but produce in an environmentally friendly and socially responsible way." Hoechst's Community Discussion Group (CDG) was the first of its kind in Germany. Its primary purpose was to establish a forum that enables both partners to understand each other better, and on this basis, to derive mutual benefit. Rather than solving individual issues of community members, the forum's focus was to guide the impact that Hoechst had on its communities in a positive direction for society as a whole, leading to positive feedback with regard to the position of the company within it.

The process of partnering began as idea between Hoechst and a green community pressure group. At with its North American operations, the company already had experiences with Community Advisory Panels (CAP). However, the operational and social conditions between the two are so different that no direct transmission was possible. The chemical accidents of 1993 and 1996 forced Hoechst to undertake immediate action that included a need to change its relationship with its communities. The 14 June 1993 saw the beginning of the constitution of the CDG. Today, two CDGs exist. The following five sections describe the process of building a partnership between Hoechst and its communities.

5.3.2.1 Preparing for Community Relations

It was at the beginning of the 1990s that a small group of managers from Hoechst, deliberately started to build personal relationships with critics from Hoechst's communities. They searched for talks, dialogue, discourse, and exchange of information and ideas. At Hoechst, top management saw the need to come together with critics and to develop a strategy for corporate communication that also encapsulated community relations.

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[4] *Schüffler un Maagucker* is Hesse dialect and can be translated with *investigators and analysts*.

Between 1993 and 1995, many small citizen initiatives were founded. These focused on various issues, caused mainly by the impact of Hoechst on society. Their emphasis was often linked to family lives or general concerns of the community. For these groups it was crucial to become more widely recognised and to build contacts with Hoechst. The founder of a mother initiative described the initial stage:

> *Over three years I made myself known. I had many personal contacts with managers from Hoechst and they begun to accept our work and me. [...] One was looking for a group of community representatives that would always be approachable. We knew one another already. [...] We were sitting opposite managers that had a lot of money and that were talking a different language.*

The Höchster Schnüffler un Maagucker is a green citizen initiative that criticised Hoechst's impact on the environment. This group searched for ways to challenge the company to change its behaviour. A representative described ways the initiative went to achieve its objective:

> *We brought shares and therefore had a right of speech at the annual shareholder meeting from Hoechst. We also raised our voice at public hearings about licences for new products or production equipment. In this way we met people from Hoechst and made personal contacts.*

Reconsidering Hoechst's chemical accident in February 1993 a member of a green citizen initiative said: "After the yellow rain in 1993, Hoechst was very dilettante in its communication, and the idea of a discussion group was born."

Communities needed support but Hoechst did not know what kind. To help themselves they depended on each other. A representative from a citizen initiative remembered that "at the time of the chemical accidents, it was good that we knew each other. Everyone knew someone who had some information and so we could help each other but not solve the problem."

Looking back to 1993, the head of communications from InfraServ said:

> *I think that the year 1993 stands for the beginning of a huge change at Hoechst. During this year, the company was hit very deeply in its basic values. This was especially true of its relationships with its critics.*

The head of Hoechst's corporate medical services was directly involved in the management of the aftermath and remembered:

> *Rather fast, we had many meetings and informal discussions with citizen initiatives. Also there were many endeavours from certain people to enhance their political profile.*

The closest contact between Hoechst and citizen initiatives was at public hearings. After these, lawyers from both sides talked about the relationship between Hoechst and its surrounding communities. Out of these conversations, they built the idea of a discussion forum. An environment-orientated citizen initiative claimed that they were always interested in formal dialogue with Hoechst. One of its representatives said retrospectively: "Protest was not a solution. A discussion group was always our aim. We collected signatures from Hoechst's neighbours to express and emphasise our collective will."

Only after the CDG was founded did Hoechst's lawyer, who represented the company at public hearings, go to the US to gather information about CAPs that are legally required in the US. Today, considering its personal experiences with Hoechst's CDG, he said: "It is easier to communicate with stakeholders than to try to analyse them."

He also sees himself as the internal father of the CDG:

> *I founded under pressure the Community Discussion Group in co-operation with critical groups like citizen initiatives, mother initiatives, environmentalists and others. The objective was the enhancement of communication between Hoechst and its neighbours. This was an objective on both sides. Together with Höchster Schnüffler un Maagucker, we started the process of building this partnership.*

5.3.2.2 SETTING RULES FOR A DISCUSSION GROUP

In June 1993, four months after the first critical chemical accident, Hoechst was invited to a constitutional meeting of the CDG. Hoechst's head of corporate development remembers the beginning "as process [that] was embedded in frictions and controversial discussions." Mische, member of the Board of Directors of the Hoechst Group, stated in his opening speech at the first CDG meeting that: "Hoechst as the company who invited you, does not want to predetermine the co-operation. We see the community and the company as equal partners." At this early stage, the community believed that the only intention of Hoechst to get involved with the community was image improvement – a simple PR intent. A representative of a mother initiative said, "companies like Hoechst need enemies. The best thing is to keep them happy a round table. We had to ensure that they would not use us as a PR instrument."

No media was invited at the first meeting. Hoechst asked to attend only the community representatives that they knew. This was the first critical issue that hit the agenda of the CDG. A community representative remembers: "They thought that they could sit with us at a round table, excluding the media but informing them that one sits together and talks with each other – but nothing else."

Because the community wanted to establish a statute for the CDG they used this situation. A citizen requested to invite the press. He asked further whether the CDG could vote on this issue. Suddenly, Hoechst realised that without a statute the CDG was not able to work effectively. It was especially important to provide a concept for agreement, achievement and conflict-solving. In the event of Hoechst not accepting setting up a statute, a community representative said: "We would have gone to the press [...] I am sure that this would have damaged its reputation again."

A working group of community representatives developed a proposal for a statute and it was a matter of course that the CDG was open to the public and the print media as well. Members of the CDG were community representatives, representatives from Hoechst and advisory members like local authorities.

The founder of a mother initiative summarised the issues covered by the working group and integrated into the statute:

> *It was arranged who could attend the meetings, who had right of speech, and voting rights. Everybody should have the same rights. One needed to balance the difference between the participants – a power balance. We also had to say that we wanted a right to give recommendations.*

From Hoechst's perspective it was most important that one could get the major critics together around the table, along with competent people able to help the community to understand the often technical processes that were at the centre of the discussion. One reason why it was not easy to decide which community representatives should attend the meeting was the diversity of the community, and the fact that they were only partly organised in terms of citizen initiatives. Another reason was that only few people really stood up to Hoechst because of emerging tensions within the community. A community member described the situation:

> *There was also a tension in the community that women were shouting at Hoechst and men could lose their jobs or the company would migrate to another country. However, this was never our intention. We were sure that a company making so much profit also has a responsibility to ensure that its production and products are in such conditions that they do not harm people or the environment.*

There were tensions in the company, too. The head of the work council of the Hoechst Group was upset about the exclusion of the employee representatives from this forum. Neither could he see enough competence in the community to discuss and comment on company issues. He said:

> *I think [the representative] is a complete idiot. Over time, he achieved a high degree of knowledge and competence. Nevertheless, permanent negation does not help. [...] It was all about politics.*

5.3.2.3 Discussing Chemical Accident Aftermath

In his opening speech, at the first CDG meeting, Mische named limitations of the CDG:

> *Sure, we cannot take any decisions at this table. However, we will listen carefully to the discussion and consider your recommendations. We will pursue your ideas within our business practice. Many questions will be discussed without result.*

Between 1993 and 1997, when the CDG focused on Hoechst's chemical accidents and the mismanagement of their aftermath, neither legal nor insurance issues were at the centre of the arguments. Longitudinal health investigations and community early warning systems were problems that the community wanted to discuss and to solve. Community representatives set the agenda for CDG meetings. During the discourse process that led to recommendations for Hoechst, the company and the community did not always understand each other. Technical issues, in particular, caused communication problems.

A member of a mother initiative blamed Hoechst for its hegemony:

> *We always call the child by its name. [...] Others tried to focus on terms that we did not use properly. They could not come back to the point and tried to destroy our arguments. They always tried to show us that we were incompetent, and do not know what we were talking about.*

At the beginning of the partnership, the CDG had no structure; no one knew who was responsible for what. Hoechst and the community did not have any experience in how to organise these kinds of meetings. The company became responsible for administration and organisation. Hoechst circulated invitations to CDG meetings. They were also responsible for organising the meeting room and writing the minutes. A representative of a green citizen initiative believed that, "Hoechst is the cause of the problem so it is only normal that they should be responsible for the costs. However, we had interesting pro Hoechst protocols that we could accept only on occasions. We can criticise or even reject them." Hoechst was required to cover the costs that were created in the context of the CDG activities. It was only reasonable for community representatives that the company should be responsible for these. However, some community members and employees saw it differently. A citizen initiative representative remembers arguments:

> *Some people asked us whether Hoechst would buy us because we were working with them so closely. Are you still free? However, suddenly my words had impact. The Community Discussion Group has power and powerlessness.*

Experts from various areas were invited to the CDG meetings. The statute regulates the membership of and participation in CDG meetings. According to these, CDG members have differing status. Members of the community are proportionally represented and the only ones that have voting rights. Members of municipal and governmental bodies have a consulting function and are invited if their competence and action is needed. Hoechst's role is one of communicator, information provider and administrator. A neutral moderator brings all parties together, steers the discussion, and helps in critical situations as a neutral person to achieve consensus.

Within working groups CDG members with voting rights searched for concepts on which community representatives could agree before they entered into discussion with Hoechst.

These groups are not open to the public. If the community needed further competence to develop concept suggestions for the discussions, they asked for outside support, mainly from NGOs like Greenpeace or the Öko-Institut. Independent research institutes were commissioned with special expertise. Hoechst had to pay for the costs. However, the head of corporate medical services said that some actions were not supported by Hoechst, but at a certain time, were inevitable:

> *To my regret, we had to do things that were not needed. They were against our conviction. However, at this time we had a woman from the green party heading the environment department from the city of Frankfurt. It was a political game. [...] We have consciously thrown away about DEM 1.6 Mio.*

A further part of the political game was that politicians did not always support Hoechst. As a Hoechst manager remembers, the head of the environmental municipal council argued that "she would not be stupid to see what is the right thing to do." He added "nor could she see any political benefit in accepting suggestions from Hoechst. She wanted to pay lip service to the community. There is potential for her re-election and political future."

Before CDG meetings, Hoechst managers held a co-ordination meeting. They discussed positions, and agreed on a strategy for the meeting. The participating Hoechst managers at the discussion group meeting, mainly heads of departments were committed in advance to an agreed internal position. The head of InfraServ criticised the process at this time: "We were very inelastic. We could move neither forwards nor backward. This brought a lot of tension and dissatisfaction in the dialogue." After the head of the Frankfurt site became Hoechst's leading representative at CDG in 1996; an authority decided now on issues and could change them immediately. The discussion process gained flexibility.

Hoechst provided the community with wider access to the company and gave more insight into the company's production and products. When Hoechst had its second major critical chemical accident in 1996, the communities already had a forum in place to discuss resulting problems. However, issues are changing and after discussion of the critical aspects of Hoechst's chemical accidents, the CDG began to widen the spectrum of the discourse.

5.3.2.4 ACHIEVING A CONSTRUCTIVE DISCOURSE

Because of the chemical accidents and the aftermath that characterised the relationship between Hoechst in Frankfurt and its surrounding communities, the partnership began with mistrust and low acceptance on both sides. Consequently, on one side, community representatives tried to control every move from and information given by the company. On the other hand, Hoechst wanted to control the behaviour of community members in response to their business practice. At the beginning, community representatives were mistrustful of the company, questioning everything and suspecting manipulation that might divert their concerns from the critical issues. However, the discussion of chemical accidents and their aftermath provided the very basis for continuing, constructive discourse. The head of corporate communication from InfraServ reflects the present state of the partnership on the past:

> *Today, members of the discussion group do not start right at the beginning of a meeting with the insinuation that we want only bad things. [...] The Community Discussion Group is satisfied with the way in which it operates. Members told us that they achieved certain things only because of our partnership. They also told us that we should also be happy because it helped us to reposition ourselves positively within community's mind.*

Although community representatives felt that the CDG achieved a constructive base, the back door was still left open. If one were to experience strong and not solvable misbehaviour on the part of Hoechst, the ultimate consequence would be a broken partnership.

The speaker of the 'Höchster Schnüffler un Maagucker' clarified this by saying:

> *At the moment when Hoechst might persistently withhold information that was not confidential or to undermine our integrity, we would stop co-operation. If they refused to talk about certain issues or broke the statute, we would not continue this partnership. We carefully monitor Hoechst's behaviour and are still suspicious.*

The partnership building never finished and satisfied neither partner's expectations. In 1997, after the main discussion of the chemical accidents, further issues were added to the agenda items that were discussed by the CDG. These issues were, for instance, the discussion of huge investment projects with an impact on the community, CDG member access to licensing documents, employability and general community improvement. Specific issues were suggested partly by community representatives, and partly by Hoechst. At the end of each CDG meeting the agenda for the following was discussed, and finally decided. Community representatives mainly proposed discussions about issues that they were aware of and Hoechst only those that could become critical. A community representative said that, "Hoechst have never behaved so truthful as they do today and they gave the public the right to criticise the company." He added "that before they thought they would be absolute angels and everyone who criticised them was seen as someone from Moscow."

Hoechst was aware of the importance of the CDG. They saw a positive impact on Hoechst's long-term success. The Hoechst Group MD for technique and environment commented on the CDG as the basis for constructive discourse:

> *In this context we have developed the term 'urban sociable chemistry' and tried to use the advantages of a partnership between a company and its community. We achieved this because of the endeavour to establish trust through dialogue.*

5.3.2.5 Replicating the Community Discussion Group

Results of Hoechst's restructuration to a management holding were many autonomous operating companies – also at the Frankfurt site. InfraServ, the operating company of the Industriepark Höchst, took over the responsibility to co-ordinate the CDG on behalf of Hoechst's represented subsidiaries. This restructuration caused some problems for the CDG. Community representatives asked for separate representation at the CDG. A Clariant communication manager commented on the situation: "Who is Hoechst? Is there anybody outside the fence who can answer this question? Consequently, there is a communication problem. Every company wants to built its image."

In 1998, when Hoechst's main industrial chemical business was transferred to Clariant, a circumstance emerged that made it clear that it would be problematic for the CDG to communicate with 35 different companies. The advantage of this restructuring for the CDG could have been a more transparent Hoechst Group but internal CDG problems arose. The CEO from Clariant stimulated the impression among the CDG members that there was a discussion as to whether the company should be part of CDG meetings or not. Community representatives got upset about this impression since the industrial chemical business was the business that caused most of the problems in the past. Another reason was that there were different communities that were affected by Hoechst and Clariant. If Clariant were not to participate in a CDG the respective communities would have no person to turn to. The following statement from a community representative illustrates the emerging problems.

> *The CEO from Clariant tried to leave the Community Discussion Group. Fortunately, Clariant had an accident. We had a crisis meeting and the CEO expressed his excuse and asked for a continuation of the Community Discussion Group. [...] They tried to set up a new statute but we would never have accepted this.*

The following timeline provides an overview of the history and the activities of the CDG 'Höchster Nachbarn' – the CDG of Hoechst's subsidiaries:

14.06.1993 - Constitutional Meeting
09.09.1993 - Rules for CDG; Breakdown Brochure § 11
19.01.1994 - Longitudinal Health Investigation in Schwanheim; Open Access to Licensing Documents; Siren Warning
19.05.1994 - Exposition Register ; Warning Systems for Schools; Copying of Licensing Documents
22.09.1994 - Longitudinal Health Investigation and Exposition Register; Site Question of Griesheim and Höchst and Presentation of the new CEO from the Frankfurt Site about the Future of the Site; Open Access to Licensing Documents; Siren Warning of Neighbourhood
26.01.1995 - Exposition Register; Emission at Höchst and Griesheim; Gene-Technology at Hoechst; Demolition Procedure; Siren and Information System
04.05.1995 - Vocational Training Situation in Frankfurt West
05.05.1995 - Transportation of Dangerous Goods; Site Traffic; 15th Anniversary of 'Höchster Schnüffler un Maagucker
19.10.1995 - Special Session on the Chemical Accident in Azo II
25.01.1996 - Actions for Azo II; Energy Supply; Audit Programme; Air Pollution; Employee Safety Education
29.01.1996 - Special Session on the Chemical Accident (Isoproturon) (Frankfurt's Mayor Mrs Roth and MD Wäsche)
29.02.1996 - Elucidation of Isoproturon Accident; Emergency Manager
09.05.1996 - Exposition Register; Test of Sirens
06.09.1996 - Results of Health Investigation; Project Hoechst and Eco-Institute ; Breakdown Brochure
23.01.1997 - Inquiry for Information Referring Isoproturon Breakdown 1996; Safety Audits; PREPH; Women Promotion
24.06.1997 - Final Report about Health Investigation
18.09.1997 - Organisational Changes at Hoechst
10.10.1997 - Special Session on the Chemical Accident Azo I
15.01.1998 - Rules for CDG; Presentation about the Partnership with the Öko-Institut; Information about a new Products
23.09.1998 - Vocational Training; Breakdown Brochure; Community Behaviour in Case of a Chemical Accident

Figure 16 Timeline and Major Themes of CDG Meetings (Source: CDG Meeting Protocols)

It seemed that some trust was lost between the partners, since the communities could not satisfactory differentiate between the new Hoechst and Clariant. However, Clariant's intention was to search for answers as to how they could become a more effective part of the CDG. Their belief was that solutions could only be achieved together. The company asked the existing CDG for their opinion on how one should proceed with the CDG. A working group developed a proposition on which the company stated its view. After intensive discussion, the CDG decided on the final concept. The CDG replicated constructive dialogue. Today, there are two CDGs. One discusses issues concerning Clariant's business impact and the other the business impact of the rest of the companies operating at the 'Industriepark Höchst'.

5.3.3 Community Discussion Group Features

Hoechst minimised its community affairs activities and increased its negative social and environmental impact on its surrounding communities. The tensions between Hoechst and its communities grew to conflicts that harmed Hoechst's business in various ways. Chemical accidents were not only the final reason for building a partnership with the community; they were also for a long time at the core of the discussion of CDG. Hoechst recognised that its denial and information withholding strategy harmed its business more than it helped it. The company knew that it needed the support of its communities if it wanted to stay and to prosper in the region. Therefore, active conflict management was required and the primary purpose was to build a CDG. The communities requested information and transparency about products and production facilities. Hoechst saw in the fulfilment of these demands the key to conflict solving and prevention. Communication improvement was part of Hoechst's corporate strategy and the way in which community representatives wanted to get involved in the discussion of Hoechst's impact on society.

There was already some personal communication between managers of Hoechst and community members. Some of it was based in Hoechst's legal affairs; others emerged from the involvement of Hoechst's managers in community issues that were not part of their job. Community representatives deliberately used these communication channels to gather information about Hoechst's business activities and to gain support for community projects.

Personal contacts enabled Hoechst and the communities to form a partnership. The company knew who they had to involve and the community representatives knew who they where talking to. However, regardless of the trust between individuals, the community was suspicious because now they faced Hoechst as an institution. Formal rules were developed that regulated the constitution of the discussion group, rights and responsibilities of its members as well as the procedure for discussions. Personal contacts together with formal discussion regulations built the covenant of the partnership.

Community representatives felt handicapped because of their limited understanding of Hoechst's technological business practices that were often at the centre of arguments of the CDG. In addition to this, the small, unknown community representative had to argue with the well-known powerful Hoechst manager. Only one green citizen initiative representative had the knowledge that was needed to understand and translate managers' language into communities' language. One representative from a mother initiative had the needed charisma. These two often acted as spoke-persons. Managers sometimes misused their knowledge as a source of power by presenting information in highly technical language or by playing with social status. Community representatives anticipated this power relationship and forced the CDG to regulate the use of knowledge as power base as much as possible in the statute of the CDG. This regulated power balance provided an interdependent power relationship between Hoechst and the community that was crucial for constructive discussions. If managers did not follow these regulations by presenting open and understandable to non-experts information without any social pressure, community representatives reported immediately after the CDG meeting to the print media.

For the community to learn that business is not a welfare institution but also not evil and for Hoechst to learn that its surrounding communities are not only critics but an integral part of its business environment is an outcome of a continuous trust building exercise. The partners learned that they could work together for mutual benefit. Therefore, trust building was part of every discussion, but from changing perspectives, and remained unfinished. A continuous process rather than stages, characterises the evolution of the partnership. After discussing and solving most of the issues resulting from the aftermath of Hoechst's chemical accidents, the CDG renewed itself and began to focus on both related and new issues. Renewal in this context means continuous application of the same procedures but with new issues for discussions. In addition, a replication of the CDG became inevitable because of Hoechst's restructuring and the fact that the potential for conflict became linked to autonomous companies. Positive experiences with the first CDG helped to set-up a second one.

The following table summarises the CDG features under four headings:

Purpose	Covenant	Power	Evolution
▪ Social Conflict Management	▪ Personal Contact Based	▪ Knowledge as Power Base	▪ Renewal and Replication
▪ Communication Improvement	▪ Formal Discussion Regulations	▪ Regulated Power Balance	▪ Continuous Trust Building

Table 11 Community Discussion Group Features

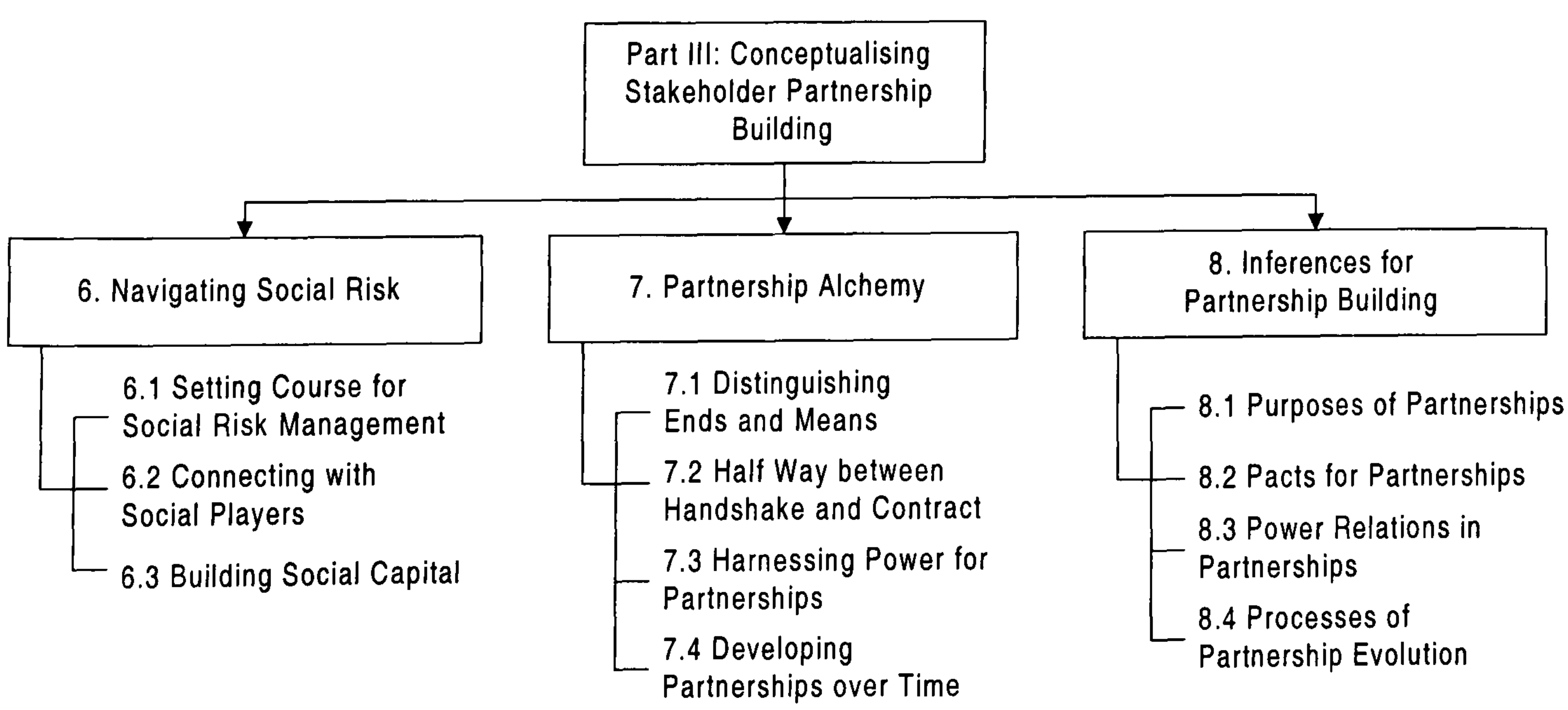
Part III Conceptualising Stakeholder Partnership Building

Partnerships are essential to creating the human relations needed to damp the social amplification of minor risks – as well as to generate concern where it is warranted. Often controversies over risk are surrogates for concern over processes.

Baruch Fischhoff (1998)

There are many kinds of partnerships. Companies, for example, may come together to drill for oil or to share airline codes. NGOs may join forces to campaign for new legislation to secure environmental improvements, and governments may join with each other to fight wars and to provide humanitarian aid. This research, however, focuses on a particular breed of partnership, one that engages business and its stakeholders – here NGOs and communities – in specifically addressing societal goals. The following part of this thesis conceptualises the four processes of stakeholder partnership building that were described chronologically in part two, to identify and define the elements of partnership alchemy.

The conceptualising of stakeholder partnership building comprises three sections. The first, that of navigating social risk, focuses on the policy, processes and social capital of the two analysed companies. The second section, that of partnership alchemy analyses the variables that describe similarities and differences between stakeholder partnerships. Finally, inferences for partnership building identifies and defines the elements of partnership alchemy with regard to the four different analysed stakeholder partnerships.



Chapter 6 NAVIGATING SOCIAL RISK

> *In advanced modernity the social production of wealth is systematically accompanied by the social production of risk. Accordingly, the problems and conflicts relating to distribution in a society of scarcity overlap with the problems and conflicts that arise from the production, definition and distribution of techno-scientifically produced risk.*
>
> Ulrich Beck (1992)

In this study, the purpose is to analyse stakeholder partnerships from two different companies within different organisational and industrial settings, and which produce different kinds of social risk. In particular, it is important to understand BP's and Hoechst's social risk management approach to describing differences and similarities of firms' stakeholder partnership-building characteristics. The risk management approach is called navigating social risk, so as to emphasise three contexts: the set course for social risk management, the connecting processes of BP and Hoechst with their respective societies, and social capital that is built by these processes.

The set course focuses primarily on policy issues, and describes the normative context – that is, what is the right thing to do. The behavioural context – how did the companies do it – is described by focusing on the analysis of BP's and Hoechst's connecting processes with society. Finally, social capital building reflects the instrumental context – what is the impact of BP's and Hoechst's' behaviour. Taken together, the normative, behavioural and instrumental contexts set the boundaries for the analysed stakeholder partnership building characteristics from BP and Hoechst.

By way of summary, BP and Hoechst adopted two different approaches to navigating social risk. Although both companies had a similar strategic intent, the way in which they sought dialogue with society was fundamentally different. However, interestingly, despite differences with regard to policy and processes, social capital features remained similar.

6.1 SETTING COURSE FOR SOCIAL RISK MANAGEMENT

6.1.1 Directing the Company

BP already had a formal policy when it changed from a technology to a society driven company. Although, the company revised these guidelines, its primary purpose and development, as well as its method of applying this to business practice remained unchanged. The policy provides codes for behaviour and benchmarks for accountability. The main guidance was on ethical behaviour, as well as on laws and regulations. BP's policy needed to be complied with at all times by employees or representatives. All guidelines were developed at the corporate centre, and then forwarded to BP's operational units for comment and elaborating implementation issues. A managing director and specialists at various company levels were assigned the ongoing task of managing policy. In the 1990s, the company set out detailed guidelines with regard to the application of the policy, and further issue-related policies such as health, safety and the environment, and social policy, were developed. BP's policy documents are printed as glossy brochures and circulated widely, both internally and externally. The company had a formal compliance-directed policy.

As a chemical company which transformed to become a life sciences company, Hoechst did not have a formal policy on which employees should orient their behaviour and against which behaviour should be assessed. Throughout the history of Hoechst, the board of directors and senior management were seen by employees as paternal figures, always knowing the right thing to do. Employees associated policy issues with the board, and often with CEO priorities for the company that were widely communicated within and outside the company. However, the board of directors did not consider policy issues as decisive. Indeed, strategy was the crucial factor in determining policy. The market determined Hoechst's strategy and, hence, its policy as well. In the 1990s, Hoechst in Germany was forced to become an 'open company' applying a 'de-frosting and de-rusting' strategy. The CEO made corporate communication into a priority. Policy issues such as providing insight and information, and communicating as widely as possible derived from the need for a corporate communication strategy. Hoechst became transparency-directed.

6.1.2 *Providing Orientation*

BPX entered a developing society and initiated widespread social changes. The company was a wealth producer in Colombia's most underdeveloped and poorest department. Society's expectations needed to be met, and BP was forced to recognise its role as an agent in social change. For instance, the wealth produced by BPX in Colombia attracted many Colombians. They moved near to the operation sites so as to benefit from BP's presence. However, because of the underdevelopment of the region, this migration caused many social hazards such as crime, infrastructure deficiency and guerrilla movements. BP had to face accusations of human rights abuses and environmental damage before it turned appropriately towards social risk management. Ethical and legal compliance was not sufficient. The company recognised that to navigate social risk, the course also needed to be responsibility-orientated. The added policy dimension was social responsibility. Recognising the potential social risk that BP had brought to Colombia, the firm set up a fixed code for the responsible behaviour of a company operating within social sensitive areas. Managers and employees were required to orientate their behaviour towards these responsibility guidelines.

Meanwhile, Hoechst in Germany became detached from the society because it neglected society's needs and wants and therefore not only its reputation suffered but also its business performance. However, the life sciences industry sector directly affects and is affected by society. Thus, transforming into a life sciences company implied the necessity to be much more integrated into society than it is the case with chemical companies. In addition, the aim of aligning business with the guiding principles of sustainable development also urged Hoechst to become part of society. A successful life sciences business and an effective sustainable development approach can only be achieved through a focus on social demands with regard to a variety of issues such as product innovations and use of natural resources, or product and production implications for future generations. Hoechst has already opened up to become more transparent. However, a focus on social demands would go much further, and would require achieving formulated objectives. Hoechst's social demand orientation had a dynamic link to social issues that were part of a firm's strategy. The company considered social demands as embedded within the strategic direction of the company. Consequently, social demand orientation is an outcome of Hoechst's strategy.

6.1.3 *The Normative Context*

The normative context of navigating social risk was fundamentally different in BP and Hoechst. The distinction between the two set courses might be described in the following way: whereas BP strove to comply with laws and regulations, as well as to consider corporate social responsibility to achieve long-term performance, Hoechst focused on openness and social expectations embedded in corporate strategy, leading them to the statement that only that which can be communicated will be realised. Five distinctive policy features can differentiate the normative context of managing social risk between BP and Hoechst: direction, orientation, structure, performance and environmental adaptation.

As analysed, BP had a published code of conduct and various sub-policies that were primarily compliance-directed and responsibility-oriented. In order to become accountable, the company produced formal, widely circulated policy documents. However, because the code was fixed, no environmental adaptation was possible. Hoechst's informal course was, rather, transparency-directed and social-demand-orientated. The company did not consider transforming policy issues into a code of conduct. Existing policies such as environmental management guidelines were dynamic outcomes of Hoechst's strategy, and in a state of flux. Hoechst did not intend its policy to be applied for accountability purposes.

Policy Features	BP	Hoechst
Direction	Compliance	Transparency
Orientation	Responsibility	Social Demand
Structure	Formal	Informal
Environmental Adaptation	Fixed Code	Dynamic Strategy Outcome
Accountability	Accountable	Not Accountable

Table 12 Normative Context of Navigating Social Risk

There was some evidence that the differences between the fixed strict policy of BP and the more dynamic, laissez-faire policy of Hoechst derived from firms' different history, governance and leadership, and were embedded in the different social risks that the companies induced. No evidence could be found that policy differences might be linked to industrial or regional distinctions. Industrial issues influencing policies were similar, and both companies were global operators with global policies.

6.2 Connecting with Social Players

6.2.1 Becoming Part of Society

In the early 1990s, BPX was granted a licence to act as operator of explored oil fields in Colombia. The company was aware that it was only a guest in the country. As such, BP had to adapt to regional behaviour, to contribute to social development and to comply with Colombian laws and regulations. The firm's overall strategy can be seen to have been integration into the society. A high percentage of BPX's oil revenues were royalties that were only partly returned to the Department of Casanare, but were inefficiently used. The company recognised this, and set up its own community affairs team, with an impressive social investment budget, for initiating and managing community projects. In addition to this, BPX had extensive environmental programmes and a controversial security system. The overall objective of the various programmes and projects was to make a positive contribution to the social development of Casanare. In the late 1990s, the company revisited its social investment practice and embedded its revised activities into an internally developed strategic social development programme, called Casanare 2000. This was followed by BP's ambition to integrate its social engagement into its business activities.

Hoechst in Germany had a long history of being part of society. However, in the early 1980s the company began to reduce, without any explanation, its social contribution to a minimum and did not engage in new areas. In addition, Hoechst's reaction to constant criticism about its products and production had the effect of detaching the company from society. In the early 1990s, Hoechst announced a reintegration strategy. Because the company's critics blamed Hoechst for not providing insight into internal production and licensing processes or information about products, production and social implications, the company made corporate communication a priority on the way towards social reintegration. Hoechst developed a strategy and set up a corporate communication department at the corporate centre and at the operational levels. At the core of this approach was the objective to establish targeted communication. Because of the nature of identified strategic issues, certain stakeholders could be associated with them and, thus, targeted stakeholder communication was applied to reintegrate Hoechst into the society.

6.2.2 *Connecting Processes*

To put its desire for social integration into action, and to achieve sustainable social development, BPX in Colombia first developed all programmes and projects internally, with only little external expertise. Project management procedures were used for social investment considerations that resulted in planned social development processes. The annual budgeting was presented as a social investment plan. BP tried to rationalise social investment in the same way as it rationalised business investments. However, the company treated social and business investments as two separate issues. This approach thus did not allow for satisfactory consideration of society's expectations of BPX's contribution to social development. The company recognised that it did not have the expertise to achieve its social development targets without sufficient support from stakeholders. BP thus began to engage with stakeholder at various levels. For instance, the company consulted NGOs referring policy issues and members of communities, as they needed their expertise to plan and manage community projects. The company integrated stakeholder consultation as core process of its planned social development commitment for Casanare.

For Hoechst, social reintegration meant that the company had to re-establish a communication link between the company and its relevant stakeholders. Since effective stakeholder communication was the strategic objective of Hoechst, the company used corporate communication as the basis for achieving set targets within the context of navigating social risk. Hoechst's issue management approach allowed the company to prioritise the various social issues that the company faced. The prioritised social issues for corporate communication changed as Hoechst's business issues changed or critical incidents happened. In this way, social and business issues were always connected. However, in order to achieve effective stakeholder communication, the company needed to link the prioritised issues with the relevant stakeholders. Most of Hoechst's managers were members of Hoechst's surrounding communities, members of political parties or had other existing relationships to stakeholder groups. Thus, managers build personal contacts for stakeholder communication. Hoechst constantly extended its stakeholder contacts and linked them. The intent behind this behaviour was that this emerging networking would support Hoechst's endeavour to achieve effective stakeholder communication.

6.2.3 The Behavioural Context

Two questions were answered in order to describe the behavioural context of navigating social risk of BPX in Colombia and Hoechst in Germany: What did the companies do to become part of the society? And, how did they do it? Five process features are applied to compare the behavioural context of the two studied companies. Intent, actions, method, objective and procedure are the context variables that help to determine similarities and differences of firms' connecting processes with the society.

BP's search for integration and Hoechst's desire for reintegration had a similar strategic aim: connecting the firm with the society. However, as the other process elements show, the way in which the two companies put their intent into action was different. For BP social integration was achieved through social investment, and supported by stakeholder consultation, in order to accomplish sustainable social development. This was a planned process. Hoechst achieved its social reintegration through an emerging process. Networking was the method for corporate communication, built-up for effective stakeholder communication.

Process Features	BP	Hoechst
Intent	Social Integration	Social Reintegration
Actions	Social Investment	Corporate Communication
Method	Stakeholder Consultation	Networking
Objective	Social Development	Stakeholder Communication
Procedure	Planned	Emerging

Table 13 Behavioural Context of Navigating Social Risk

Although the two companies had a similar strategic intent, their actions and the connecting processes were fundamentally different. There is evidence that these differences derive from the differential nature of the induced social risk and from the regional differences of the operations. Some differences are also linked to industrial characteristics such as social issues that derive from royalty systems. No evidence could be found that similarities or differences are based on firm specific characteristics. The similarity of the strategic intent is based on a similar approach to stakeholder engagement that both companies pursued. Being part of society is the most effective way of navigating social risk (Franklin, 1998).

6.3 Building Social Capital

6.3.1 Achieving Social Status

Although, BP carried out social impact assessments, the company had only limited understanding of the social change that its business had initiated. Thus, early social development projects did not sufficiently consider societies wants and needs. Moreover, most projects were locally focused and did not allow building value creation links with other social projects. However, BPX recognised that it needed to build social capital that would help to ensure a positive return on its investments. The firm therefore began to prioritise stakeholders for consultations because they were seen as a knowledge resource for managing social investment projects. Stakeholders' knowledge enabled the company, for instance, to assess project priorities and possible impacts, and to establish links with other social development initiatives. This not only provided society with the perception that it participated in the development process, but it also assisted the company in meeting society's expectations. Consequently, society granted BPX the social licence to operate, which can be seen as complementary to the legal licence to operate that the Colombian government gave BPX. Hence, the company achieved the legitimacy for its operations.

In contract, a lack of communication with its stakeholders left Hoechst in a position where it was problematic to understand a firm's business practice and the nature of its induced social risk. Hoechst lost its identity as a caring chemical company, and began to build its identity as sustainable life sciences company. Because of its targeted communication the company was able to prioritise stakeholders. Consequently, Hoechst focused on those stakeholders that were most important, notably involving building social capital. Prioritised stakeholders were receivers, as well as providers of knowledge. They had access to business knowledge while Hoechst had access to stakeholder knowledge. For instance, by communicating with NGOs Hoechst provided insight into business processes, whereas the company gained insight into the way in which the guiding principles of sustainable development could be applied for its business. Hence, stakeholder knowledge was considered as a resource for navigating social risk. Hoechst's stakeholder networking enhanced the capacity of social capital and resulted in a new identity and thus, a reestablishment of firm's legitimacy.

6.3.2 *Building Intangible Assets*

After BP faced accusations of human rights abuses and environmental damages in Colombia, shareholders called BP's investor relations office, worried about their investments in Colombia and the possible, negative effects of the critical incident on other investments. Meanwhile, NGOs asked BP to terminate its operations in Casanare because of its reputation of being a negative force in Colombia's social development process. Although, no evidence could be found to support accusations against the company, BP's reputation suffered, not only in Colombia. However, by achieving a social licence to operate and thus, the legitimacy for its business, BPX created an assurance for its business investment. BP's achieved legitimacy was an assurance because on the basis of being given a social licence to operate, society would not obstruct BPX's business activities. However, legitimacy as an assurance can be given or taken away. In addition, BP had to restore its reputation through sustainable social development and stakeholder consultation. The company began to consider reputation as an important asset. To enhance its value, BPX developed a reputation strategy. Reputation was considered as an intangible asset that increases or decreases in value, depending on the impact of BPX's social integration process.

Already before Hoechst in Germany faced the aftermath of various chemical accidents during the 1990s, the company was known as an environmental polluter and a closed company that did not care about communicating with its stakeholders. The community could not understand that Hoechst was not supporting social development as they used to do. Consequently, Hoechst had a bad reputation and lost its identity before it began re-connecting with society. Stakeholder communication and networking assisted the company in achieving a new identity and thus, legitimacy for its business. As long as stakeholders identified Hoechst as a sustainable company, they legitimated its products and production and hence, approved its operations. Legitimacy, therefore, had implications for business assurance. However, perceiving Hoechst as a sustainable company did not immediately imply that Hoechst could see itself as a positive force within the society. Rather, the company saw reputation as the amount of support that it received from stakeholders for its operations. Therefore, reputation, as an intangible asset, was considered as having a direct impact on business performance.

6.3.3 The Instrumental Context

Within the exception of strategic intent, the normative and behavioural contexts of navigating social risk differed substantially between BP and Hoechst, particularly with regard to the instrumental context is surprisingly similar. Social capital was built by connecting with society. Achieving a positive social status and building intangible assets was equally important. Five social capital features – focus, resource, outcome, implication, and assets – were analysed to highlight similarities between BP's and Hoechst's instrumental context.

Whereas BP used social development and stakeholder consultation, to connect with society, Hoechst applied stakeholder communication and networking. However, in both companies the focus of social capital building was on prioritised stakeholders. For BP, stakeholder knowledge was a resource embedded in stakeholder relationships and called for a social licence to be established so as to operate legitimately. In order to build its new identity Hoechst also depended on stakeholder knowledge as a resource that assisted the company to gain legitimacy for its operations. Moreover, both companies considered legitimacy as having business assurance implications. Building social capital also meant for BP and Hoechst to restore its reputation – building an intangible asset that adds value to business.

Social Capital Features	BP	Hoechst
Focus	Prioritised Stakeholders	Prioritised Stakeholders
Resource	Stakeholder Knowledge	Stakeholder Knowledge
Outcome	Legitimacy	Legitimacy
Implication	Assurance	Assurance
Assets	Reputation	Reputation

Table 14 Instrumental Context of Navigating Social Risk

Social capital of BP and Hoechst is not characterised by intrinsic differences. Rather, the social capital features of the two companies are similar. The similarities are based on critical incidents that BP and Hoechst faced, in firms' set course for navigating social risk and in their connecting processes with society. Social capital was for BP and Hoechst a resource embedded in stakeholder relationships and comprised access to information as well as a social status for the companies. Because social capital is affected by the behavioural context, firms' processes of connecting with society, it sets the instrumental context.

Chapter 7 PARTNERSHIP ALCHEMY

People and organisations from some combination of public, business and civil constituencies engage in voluntary, mutually beneficial, innovative relationships to address common societal aims through combining their resources and competencies. These dynamic relationships are the essential alchemy of partnership.

Jane Nelson & Simon Zadek (2000)

The Oxford English dictionary describes alchemy as the chemistry of the Middle Ages and 16th century, applied specifically to the extraction of gold from base metal. In this chapter, the notion of alchemy is adapted to stakeholder partnership building. Partnerships unlock, combine and leverage the creativity, insight, energy and resources of their participants. Purpose, pact, power relationships, and the process of partnership development are the ingredients that define the quality and quantity of stakeholder partnership building. Therefore, these dynamic features compose the essential alchemy of stakeholder partnership building.

This chapter is an attempt to analyse stakeholder partnership building. Four stakeholder partnerships will be analysed in order to describe the elements of partnership alchemy: two business-NGO and two business-community partnerships. Two different companies and four different stakeholders were involved. Each company engaged in an NGO and a community partnership. The chapter is structured as follows:

- Ends and means of partnerships;
- Partnership agreement;
- Harnessing of power for partnerships; and
- Development of partnerships over time.

In each subsection, the four different stakeholder partnerships are described and analysed according to the aspect of alchemy that they demonstrate. The defining characteristics of stakeholder partnerships are elaborated. Chapter eight will then evaluate these features in terms of their relevance for stakeholder partnership building.

7.1 DISTINGUISHING ENDS AND MEANS

7.1.1 Acquiring Knowledge for Changing Policy

Despite obvious environmental changes, BP did not modify its business policy. Only after the company faced criticism and lost corporate reputation did it begin to revise its guidelines. By adapting its business policy to the changing environment, the firm was reliant on its internal competence and advice from management consulting companies, although through internal dialogue, it reviewed its business policy. However, a lack of understanding of issues such as human rights and business practice in less developed countries limited the extent to which the company was able to adapt business policy.

BP's policy was written by business for business, but without consulting the company's stakeholders. However, the firm recognised that it did not have the knowledge to revise and implement its policy, as it was socially required to do. To incorporate social demands, BP needed a partner able to assist the company by adapting its business policy to the changing environment around them. Since NGOs, the spokespersons of society, expected multinational companies to contribute to the greater awareness of human rights in socially unstable countries, BP and NGOs had a joint interest in improving the human rights records of Colombia and in particular in BPX's operating environment. This joint interest became a precondition for collaboration between BP and NGOs with regards to social issues.

NGOs are experts in social and environmental issues, and have built up a knowledge base. Various human rights NGOs and development agencies aimed to design human rights guidelines for transnational companies, operating in less developed countries. Also, the IAG itself set this objective, which, to a certain extent, was similar to BP's endeavour to implement human rights in their business policy. To fulfil the strategic objective of incorporating human rights into business practice, BP needed a partner like the IAG to gain understanding of the situation in less developed countries, multinational corporations' social impact and resulting business policy implications. Whereas the IAG required knowledge from companies like BP in order to assess business practice and accomplish its aim of developing human rights guidelines for the excavation industry in less developed countries. For instance, BP needed to understand the social risks that its business was inducing, and the IAG assisted the company by providing insight into these impacts, while at the same time the company enabled the IAG to gain understanding of how and why BP operated in the way it did. The opportunity for BP and the IAG to acquire knowledge from each other was seen by BP and the IAG as a basis for a partnership. Therefore, the purpose of the partnership between BP and the IAG was to acquire knowledge that would help to achieve the strategic objective of changing business policy. However, each partner had a different strategy for developing new guidelines and putting them into practice.

7.1.2 Co-financing Investments for Social Development

BPX recognised its community responsibilities, and accordingly, committed itself to community development. This commitment was based on the company's strong desire to manage its social impact. Communities' expectations were centred around BPX's contribution, and by implication, on its impact on societal improvements. Hence, the company and the society around it had a joint interest in social development. BPX benefited in various ways, such as through an improvement in its reputation and fewer interruptions of its operations, whereas the community improved its standard of living. Both BPX and the community were thus convinced that social impact management was the key to sustainable development.

Because of the wide area that was affected by BPX's presence in Casanare, various communities needed to be involved, and complex development issues needed to be considered. BPX's initial strategy for social investment was similar to those who were successfully applied in Western countries. However, scattered and unlinked social development projects where not a solution for Colombia. The company could not mitigate critical social conflicts and risk potentials. Communities' needs and wants had to be analysed and to be understood in order to meet social expectations, while social investments had to be aligned with and integrated into community development plans.

The arrival of BPX in Casanare raised people's hopes for better employment prospects, more investment in the economy and social infrastructure, and other direct benefits arising from royalties and tax revenues. 85 per cent of BPX's oil revenues went to the Colombian government, of which some was earmarked for social development in Casanare, and was, therefore given to the local municipalities to put community development plans into practice. However, often the financial budget was insufficient or inefficiently spent. Here, BPX was able to help with its social investment budget and social development was co-ordinated in partnership. However, further partnership development was only possible through a tripartite co-ordination partnering between the company, communities and local authorities.

BPX, together with communities and local authorities, were in a position to prioritise social investment projects, to manage these effective and efficiently, to bring consistency into community development plans and, more importantly, to co-finance social investments. For instance, to build a new school, BPX paid for the material and provided technical support, whereas the community and the local authorities were responsible for the construction and maintenance. Hence, the community took over ownership, and this resulted in long term stability. Co-financing social investment was considered by the involved partners as a means to the end of managing social impact for sustainable community development.

7.1.3 Combining Competence for Strategy-Tool Development

While Hoechst wished to integrate the principles of sustainable development into its business, the Öko-Institut fought to raise the awareness of companies with regard to the connectedness of economic development, social benefit and ecological conservation – the balancing elements of sustainable development. Nevertheless, Hoechst and the Öko-Institut discovered that they had a common agenda in promoting sustainable development, although, the partnership between Hoechst and the Öko-Institut is rooted in conflict and suspicion. Here, two former enemies began to work together.

As Germany's most influential green NGO, the Öko-Institute is one of the leading independent research institutes for environmental studies. Traditionally, the institute was not working for or co-operating with business. Independent competence was a first priority for effective campaigns against business practice that was considered as destroying the environment. Scientists and industry specialists analysed and evaluated environmental problems, produced environmental and social assessments, and developed strategies for improvements. Referring to the principles of sustainable development, the Öko-Institute developed competence in the ecological and social area, but this did not extend to the financial and business area. However, to provide evidence of its competence as an independent research institute rather than just a campaigning NGO, the Öko-Institut decided to co-operate with business, although not allowing this to influence its independence.

Because of its position as a leading chemical company having transformed into a leading life sciences company, Hoechst was an expert in business strategy, market development and entry, production and project management, finance and all other traditional business areas. Since the 1980s, the company began to build up ecological competence, but this was still in its early stages when Hoechst committed itself to sustainable development. However, their understanding of the social environment was underdeveloped. In addition, Hoechst's assessment and planning capabilities were limited in time and space to their business horizon. To achieve its strategic objective, and to become a sustainable company, the guiding principles of sustainable development needed not only to become part of Hoechst's corporate strategy, but to be integrated in strategy tools such as product assessments.

Traditional management consultants did not have the competence that Hoechst required to fulfil its strategic objectives with regard to sustainable development. This, therefore, presented an opportunity for the Öko-Institut to co-operate with Hoechst, and to develop a product sustainability assessment instrument, as a joint project. The two partners combined their competence – Hoechst contributed its business and finance competence and the Öko-Institute its ecological competence and understanding of the social environment. Consequently, to promote sustainable development, Hoechst and the Öko-Institut combined competence to develop a strategic tool for assessing products in terms of their sustainability.

7.1.4 Improving Communication for Social Conflict Management

While Hoechst in Germany minimised its community affairs activities, it also enhanced its negative social and environmental impact on its surrounding communities. Hence, critical tensions between Hoechst and its communities grew into social conflicts that harmed Hoechst's business in various ways such as a loss in share price. For the community, this social conflict was associated with issues such as insecurities relating to community prospects and risks with regard to health, safety and environment.

Consequently, a mitigation of these tensions was in the interest of the two opposed parties. Hoechst and its surrounding communities recognised that social conflict management was the solution to the problem, and was prepared to act jointly in this area. This readiness to engage in managing the conflict established a precondition for the partnership between Hoechst and its communities in the context of social risk management.

Hoechst's communities were very diverse. Citizen groups and local NGOs, together with the church, became opinion leaders and representatives of the communities and society's needs and wants. Critical incidents such as Hoechst's chemical accidents placed pressure on the community to protest against the company. The media and local authorities also supported this. Only a relatively small amount of information was available with regard to critical these incidents, and even less was available about Hoechst's products or their plans for the future. Negatively affected as they were by the company, and not receiving any help, widespread protests began. The communities recognised that such protests could raise attention and awareness, although they did little to initiate any changes. Protest and criticism were not seen as the preferable solution for resolving social conflict. Achieving transparency and being consulted about society-related decision-making were the objectives of the communities. Therefore, community opinion leaders sought to establish communication links with Hoechst, so as to retrieve information and become more involved in internal processes.

After announcing its 'de-rusting' and 'de-frosting' strategy, Hoechst began to evolve as an open company, aiming to make corporate communications one of its priorities. This is because the company recognised that its denial and information withholding strategy harmed its business more than it helped it, and it knew that it needed the support of its communities if it wanted to stay and to prosper in the region. Therefore, active conflict management was sought, and corporate communication was seen as the way forward. The communities requested transparency with regard to products and production facilities, and Hoechst saw in the fulfilment of these demands the key to social conflict solving. Communication improvement was part of Hoechst's corporate strategy and the way in which the community wanted to get involved in the discussion of Hoechst's impact on society. A partnership between Hoechst and its surrounding communities in the form of a discussion group was the logical way to improve communication with regard to social conflict management.

7.2 HALF WAY BETWEEN HANDSHAKE AND CONTRACT

7.2.1 Consultation Dialogue for Business Policy

Central to an effective partnership between BP and the IAG were conversations about BP's business policy and the company's business practice in less developed countries. These conversations developed into consultations designed to develop business policy. The co-operation was highly informal, with no specific objectives in mind, and as such, evaluation of the partnership was problematic. However, the partnership constituted more than merely a conversation with a competent partner. BP's dialogue with the IAG enabled it to adapt its policy to the social environment of Casanare, as well as to integrate human rights issues into its business practice. Indeed, the IAG was able to develop guidelines for the excavation industry in less developed countries.

When BP faced accusations of human rights abuses, the company carefully tracked those who criticised BP's business, and what might have been the ambition of the critics. Equally important was the expertise behind the criticism and whether the attacker carried weight. On this basis, BP had a limited selection of potential partners. Often, BP phoned their critics and asked for a conversation about issues relating to criticism in general. The intention was to find out whether the censurers were a valuable source of knowledge. BP's managers met their critics, which were primarily NGOs, on neutral territory such as conferences, workshops or similar gatherings.

Development agencies agreed to engage in a conversation process about policy issues, but refused to become involved in specific projects. Before the consultation dialogue began, the IAG was founded. The reason why development NGOs congregated in the IAG was to support each other in the partnership with BP. NGOs were aware of the power that the company had and sometimes applied. Based on these circumstances, and together with assumed neglected human rights, the IAG became suspicious with regard to BP and its offer of conversations about conflicting issues. NGOs considered the IAG as an assurance of their involvement with BP, whereas the company engaged with various NGOs and on various levels to get assurance for the case of new accusations. Therefore, both partners considered and established assurance as a basis for a partnership agreement.

A characteristic of the dialogue was that no rules or procedures were defined, no contract was signed, no regular meetings were scheduled and no agenda was laid out. However, primarily because of the sensitivity of the discussed issues, a memorandum of understanding was worked out. The IAG expressed concerns about confidentiality, and asked for a written proposal. Finally, both partners agreed on principles that defined how the consultation dialogue should be organised. An informal agreement developed out of partnering practice, as well as from experiences, but was never written down.

7.2.2 Joint Venture for Social Investments

When BPX began its operations in Colombia they had only a limited understanding of the social environment and the company's effects on it. However, the firm recognised that to link social development with a positive ~~return~~ on its business, the partnership which BPX created had to keep social expectations in mind. These expectations became more visible as the company and the community came to focus more on concrete projects and joint actions that were central elements of the partnership. Because BP already had a social development plan, and the community had a community development plan, and both an associated budget, it was deemed preferable to come to an agreement about investment priorities that could be even more efficiently achieved by co-financed investments. However, these joint investments gave no assurance of success, but rather, were joint ventures which had the interest of social investment in mind.

BPX contacted local authorities and community opinion leaders to discuss how and to what extent the company's social development activities could be integrated into the community development plan. Therefore, partner selection was predetermined. The company became a member of the community planning board, and received invitations to community meetings. These meetings were regularly planned. The way in which the company co-operated with the local authorities and community representatives was pre-arranged. In addition, BPX set up community meeting points outside but near their operating areas. These houses were not only the offices of company's community affairs staff, but also a place for meeting community members on a day-to-day basis.

Informal meetings with members of the community were important in allowing BPX to obtain access to information about society's wants and needs, so vital in setting up a social development plan. Workshops and open forums were established so as to analyse and understand social expectations in general and implications for social investment. Meanwhile, social demands continued to determine the community development plan as well.

Having prioritised community development issues, specific project planning began. For each project a formal agreement between the involved partners was signed. Every social investment project was part of, or closely linked to, the agreed community development plan. However, discussions around the plan emerged, and became determined by, day-to-day issues and current environmental changes, as well as local cultural issues. Therefore the covenant for the social development of Casanare was informal and based on expectations, but in addition, formalised, for every specific community development project into a signed formal project agreement. Consequently, the partnership between BPX and the community can be seen as an open joint venture for formalised social investments in Casanare.

7.2.3 Joint Project for Strategy-Tool Development

The outcome of Hoechst's partnership with the Öko-Institut has been the definition and development of a strategic management tool for sustainable product assessment. This co-operation was divided into two phases, each of which had a different focus but involved both the Öko-Institute and Hoechst. While the first was concept-development orientated, within the second, the concept was applied to two products, and further refined. This strategic tool aimed to become part of Hoechst's management system. Hence, the partnership had a specific target to accomplish that was defined as a joint project agreement.

The Öko-Institut was the only critic able to listen to Hoechst's justifications, and carefully considered its approach towards a sustainable company. No other national NGO opened up to co-operate with Hoechst on the issue of sustainable development. However, it was not Hoechst who approached the Öko-Institut. The process of partnering began by the Öko-Institut was followed up by Hoechst's CEO public declaration to become an open and transparent company. One year later, Hoechst approached the Öko-Institute with a project suggestion. Both partners agreed on an objective for a joint project proposal.

To establish a partnership, Hoechst and the Öko-Institute had to overcome their historical suspicion of each other's behaviour. Before, the partners started to talk about co-acting, they came together to get to know and understand each other, to gain knowledge of what, how and why one does things. Talking to each other and visiting each other's sites established a climate of rapprochement that was accompanied by both understandings and misunderstandings. However, no misunderstanding was left unresolved. Both partners were committed to mitigating suspicion by filling the gap between them with trust in each other as a basis for the joint project.

Through a lengthy trust-building exercise, the desire grew in each camp to find out whether trust could form a basis for partnering. The Öko-Institut wanted to prove that it could be constructive, while Hoechst needed the public pressure and the competence of the Öko-Institut. This was an emerging process which finally ended with the joint project agreement for developing the sustainable product assessment tool for Hoechst. Because Hoechst and the Öko-Institut had no experiences with similar partnerships, they did not intend to control the co-operation by a formal agreement or by any other constraints.

At no point in time did the partners consider an official contract through traditional business negotiation. Rather, they agreed on a project task and principles of operations that were not fixed in any way. Both partners contributed to the project design. However, there was no specific project plan or project management. Because the joint project agreement was very informal and developed with the learning of the partnership, there was at no point in time any written or signed agreement. The resulting covenant was based on mutual trust. Hoechst and the Öko-Institute were thus able to maintain their independence.

7.2.4 Communication Alliance for Conflict Management

The partnership between Hoechst in Germany and its surrounding communities, which only became more prominent in the aftermath of critical chemical accidents, is concerned with more than simply solving social conflict between those partners involved. The primary purpose of the CDG was to establish a forum that enabled Hoechst and its communities to understand each other better, and on that basis, to derive mutual benefits. Rather than solving individual issues of community members or company representatives, the focus of the partnership was to make Hoechst's impact on its communities more a positive, leading to an improved perception of the company within it. Hoechst and its communities sought to establish an alliance which, through communication could manage the social conflict that derived from the chemical accidents and any potential conflicts in the future. Within this context, the environment in which Hoechst was operating and the specific issues of the social conflict predetermined the partner selection.

At the beginning, a small group of managers from Hoechst purposely started to build personal relationships with critics from Hoechst's community. They searched for talks, dialogue, discourse, and exchange of information and ideas. At Hoechst, senior management recognised the need to come together with critics and to develop a strategy for corporate communication that also encapsulated community relations. Community representatives deliberately used communication channels with Hoechst to gather information about Hoechst's business activities and to gain support for community projects. In the aftermath of the chemical accidents, the communication between the company and community representatives was formalised into the CDG. Later, the restructuration of Hoechst created the need for a second discussion group, and the CDG was replicated.

The personal contact between Hoechst and community members established a secure basis for partnership. The company knew who they had to involve and the community representatives knew who they where talking to. Regardless of the trust between individuals, however, the community was suspicious, because they now faced Hoechst as an institution, associated as it was with powerful influence in various social, political and economical areas. However, the company was unsure to what extent a formalised CDG could positively assist corporate communication.

Formal rules were developed and these regulated the constitution of the CDG, the rights and responsibilities of its members as well as the procedure for discussions. Hence, Hoechst and community representatives developed guidelines that codified the practice of the CDG. A formal agreement was established – a communication association between Hoechst and its surrounding communities – to achieve a particular aim: the management of social conflict. Personal contacts, together with formal discussion regulations, built the covenant of the partnership, but also enabled the involved partners to maintain their independence.

7.3 HARNESSING POWER FOR PARTNERSHIPS

7.3.1 Critical Incident Driven Dependency

Human rights accusations, inevitably, had a negative influence on BP's reputation. This is because although oil is not a commodity good, the company has a very strong brand identity. Not only were BP's employees and managers deeply hurt by the fact that they might work for a company that harmed human rights, but other stakeholders put further pressure on the company. The accusations that BP faced were initiated, as well as driven, by the media. NGOs were recognised and accepted as opinion leaders and fighters for human rights and responsible development on behalf of society. BP had to accept its own negative reputation, and NGOs' positive one, as the power source of the partnership between the company and the IAG. However, regardless of the damages derived from human rights accusations regarding the company's corporate reputation, in 1998, BP received an award from the Financial Times, naming it as the most respected company in the UK. This esteem was a resource for the company that also played a vital role in the business-NGO policy dialogue.

After it faced the human rights accusations in Colombia, BP's damaged corporate reputation was source of power for the IAG. The group of development NGOs used this circumstance to utilise the media and other public contacts, and to put BP in a position where it was forced to rethink its entire business policy. The implications for the partnership were that BP could not reject proposals from the IAG without considering that this omission could damage PR. By the same token, BP's outstanding reputation in the business world derived from power that could ultimately be utilised against the NGOs. However, BP could not convince the NGOs to become involved in a specific project. The primary concern of the IAG was based on the link that this kind of partnership would create between NGOs and one of their enemies, a transnational company.

The only commitment of the partnership was honesty and openness. BP was in a much stronger position to defend its policy and action when no critical incidents damaged their reputation. The IAG was in a much stronger position when BP faced human rights accusations because this situation provided them with the opportunity to defend those that might suffer from BP's negative social impact. This can be seen as cyclic dominance, where one of the partners was always in a better reputational position than the other.

Consequently, power relationships can be described as interdependent. However, if the reputation became balanced in the long-term and BP acquired all the required knowledge that NGOs could contribute to adapt business policy, there are indications that BP will not continue the partnership with the IAG in the way they did. That leads to the conclusion that there is an incident driven power balance between the company and the partnering group of development agencies, with reputation as an independent power base.

7.3.2 Mutual Dependence on Social Commitments

As can be seen, BPX committed itself increasingly to community development, which implied a community policy, a social development plan, a community affairs team and a social investment budget. The commitments of the company changed over the years. While at the beginning BPX in Colombia focused much more on specific local issues, later, the company moved towards a more integrated social development approach, with more strategic foresight. However, the company experienced difficulties in achieving sustainable community development because it lacked the additional commitments of the communities. It is not true to suggest that the community remained against social development issues, rather than that communities' commitments sometimes fail to correlate with BPX's social development commitment.

BPX aimed to transfer the ownership of community development projects to the affected community members and local authorities. This was the only way to achieve sustainability. The company's early, paternalistic approach meant that many projects were inefficient, or indeed, failed. However, BPX's primary commitment was one of social investment, and their financial contribution combined with expertise knowledge. The communities' commitment was based on active engagement and participation in so as to enable the project to succeed. Lack, or indeed misuse of commitment on at least one side of the partnership often resulted in criticism about, and failure of the partnership projects. Hence, commitment was the power source for the community development partnership, and this was used either consciously or unconsciously.

BPX was not always able to analyse and prioritise societies' needs. However, consulted community members sometimes represented only a minority of the society and local authorities sometimes pursued political interests rather than community interests. Hence, if all involved partners were committed to the joint venture of co-financed community development projects in order to meet prioritised social expectation and therefore, enhance the quality of life, the power relationship between the involved partners remained in balance.

Because the success of community development in general and certain projects in particular, depended on the full commitment of both partners to achieve an appropriate ownership structure, BPX and its communities reached a balanced power relationship that led to an interdependent partnership, based on commitment. A community ownership, the only way to achieve sustainable community development, was achieved because all involved partners sought to meet the same, or at least similar, social expectations. Jointly prioritising social expectations was an efficient way to balance community commitments.

7.3.3 Reciprocal Competence Dependency

The joint project partnership between Hoechst and the Öko-Institut focused on the impact of the company's products and production on society. To fulfil the project objective, it was a precondition that the competencies of both partners should be linked. The Öko-Institut had the reputation of an independent critical research institute, whose areas of competence lay in social and ecological issues, related to various industry contexts. Media and other pressure groups helped to raise Öko-Institut's profile. Hoechst had the business competence that was required for this project and the critical business and finance world behind them. Therefore, the carefully combined source of power was the partners' competencies.

If one of the partners had not considered, accepted and integrated the competence of the other, the project could have failed. By the same token, if one partner had utilised its competence to control the other, it is likely that the project would also have failed. This mutual dependence on competence for successful accomplishment of a given project objective established a power balance mechanism based on the partners' recognition and acceptance of the necessity to combine each other's competence.

Whereas Hoechst's board of directors provided a policy for the project, Hoechst's project managers controlled time and costs. Members of the Öko-Institut continuously observed to what degree Hoechst acted as a socially and environmentally responsible organisation. They reported findings internally, both to pressure groups and to the media, as they did prior to the partnership. Both partners accepted this reciprocal governance as being balanced and competence-based. Consequently, Hoechst and the Öko-Institute depended on each other for the fulfilment of the joint project task, and sought to make sure that the partnership would not be converted into a PR hunting expedition so as to enhance reputation.

The same reciprocal governance mechanism allowed both partners to maintain their autonomy. This was important for business-NGO partnership in general, because an NGO does not want to be seen as being influenced by, or being dependent on, business, whereas business does not want to be seen to 'give shareholder money away' to support NGO movements that are often antagonistic to transnational business. For the Öko-Institut this meant maintaining an independent research institute that only engages with business to enhance the quality of life for society without compromising business. Hoechst, as a company committed to producing shareholder value, needed to provide evidence that the engagement with the Öko-Institut added some value to company's business.

In practice, Hoechst and the Öko-Institut planned the joint project together in a detailed way. Job sharing was organised due to the competence properties of the partners. While one partner was leading a project job, the other acted as an advisor. There was thus a balance between leading and advising. To summarise, the success of the partnership is based on balanced competence interdependence.

7.3.4 Regulated Knowledge Dependency

Community representatives felt handicapped because of their limited understanding of Hoechst's technological business practices, which were often at the centre of arguments within the CDG. Chemical, and later life science products, and their production, were complex in nature, described by very specific terminology, and required specific scientific knowledge in order to argue about potential or induced social risks. Even deeper knowledge and understanding was required to analyse the social and environmental impacts or to interpret analysis about effects on the environment and the society of Hoechst's products and production. In addition to this, the small, unknown community representatives had to argue with the well-known, powerful and often scientifically educated Hoechst managers.

Managers sometimes misused their knowledge as a source of power by presenting information in a highly technical way by using incomprehensible language, by playing with social status. Community representatives anticipated this power relationship, thereby forcing the CDG to regulate the use of knowledge as a power source as much as possible in the statute. This regulated power balance was a prerequisite for a constructive discussion between Hoechst and its surrounding communities. When being confronted with scientific jargon by Hoechst's managers, community representatives often felt embarrassed, and did not fully participate in the discussion. Only one green citizen initiative representative had the expertise that was needed to understand and translate a manager's language into a community's language.

At the beginning, if managers did not follow the CDG discussion guidelines by presenting open information and knowledge understandable to non-experts, without any social pressure, community representatives reported immediately after the CDG meeting to the media. CDG members knew who to contact and how to present the case to the public so that it would assist them in achieving discussion objectives with Hoechst. However, the participation of the media and the public presentation of the content and decisions of CDG meetings became part of the statute. Hence, although the use of Hoechst's specialist knowledge that was needed for constructive CDG meetings was regulated, there was no dominance of one partner. Rather, there was interdependence between Hoechst and its communities, because of communities' regulated use of knowledge about how to unitise the public for their benefits. Consequently, the application of Hoechst's and the communities' knowledge as a power source was guided and balanced by a statute.

The main reason for applying for a guided discussion approach was that both partners were interested in a constructive long-term discussion forum, but they worried about the misuse of power of knowledge. CDG's regulated knowledge interdependence provided Hoechst and the communities with a kind of assurance for constructive discussions.

7.4 DEVELOPING PARTNERSHIPS OVER TIME

7.4.1 Incremental Partnership Development

When BP approached development NGOs to discuss human rights, it was not clear whether BP and the NGOs would be ready to engage in a dialogue, and the directions of these conversations were unpredictable. On both sides, partners had different expectations and objectives. They did not know what one could expect as an outcome of this dialogue, although there were set objectives on both sides. At the beginning, no one thought about institutionalising the conversations. The partners did not have a plan for the development of the business-NGO policy dialogue. All that they were certain about was that a joint positive contribution to the human rights in Colombia was required. Hence, the direction of the partnership development was defined in terms of the target to be achieved, but emergent with respect to the way in which the target should be accomplished.

However, no serious conflicts between BP and the IAG interrupted the partnership. BP's and the IAG's co-operation continued to improve. BP and the IAG were able to enhance the quality of policy conversations by gradually increasing an understanding of each other's concerns and practices by regular degrees of added knowledge, acquired through the partnership. Every critical social issue was discussed when it emerged. This incremental evolution was long-term orientated. At no point in time was a partner trying to achieve short-term success at the expense of the long-term relationship. However, at no stage was this co-operative behaviour imposed by the necessity for BP and the IAG to be partners indefinitely.

BP was forced to engage with development agencies. A permanent adaptation process determined actions and therefore the evolution of the partnership between BP and the IAG. Both partners were open collaboration and saw it as a purpose of the dialogue to acquire each other's knowledge. The development of the partnership was unpredictable and anarchic, but static rather than dynamic in its development over time. Permanent adaptation of BP and the IAG to the changes in partnership was a precondition for sustainable, evolution since it was a reactive process of business-NGO policy dialogue rather than proactive.

The partnership between BP and the IAG was also determined by the company's reputation and was, indeed, incident driven. Because BP lost its reputation on the strength of human rights accusations in Colombia, the company felt that it had no alternative but to engage with critics. By the same token, from BP's perspective, a restored reputation implied that there was no need to continue the partnership other than by maintaining the relationship for facing new accusations. In addition, since the IAG refused BP's offer to participate in or lead specific community projects in areas in which BP operates, indications emerged that the company might not be willing to continue its partnership with the IAG as was the company's habit. Hence, these circumstances do not guarantee durability, but lead to predictions of an unstable, uncertain future with regard to the current partnership.

7.4.2 Stepwise Partnership Development

While BPX integrated and developed its business within Casanare, social and environmental issues changed. However, most of the changes that BPX were concerned about were linked to the company's operations and were therefore, at least to a considerable extent, predictable. BPX developed a social policy and programmes, and set up a social investment budget that guided and influenced its engagement with Casanare's social development. However, at the beginning of the partnership, the company's approach was somewhat reactive, and only later did BPX begin to think strategically about social impact management.

Local authorities and community representatives were restricted with regard to community development, to the extent to which the national government provided the region of Casanare with a financial budget for social investments. Community development also needed to be aligned with the development plans of local authorities. However, because of various inconsistencies in the government mechanism these often changed, and BPX had to adapt its development activities. Moreover, communities' needs based on social development changed over time, and this called for a revision of BPX's community involvement. While the company had a continuous consultation process with its community partners, every concrete project required a separate, quite specific negotiation. Consequently, because the community development programme for Casanare was long-term orientated, the plan was adjusted on a project-to-project basis.

The experiences from community projects and the analysis of social impacts, together with the criticism that BPX faced from NGOs about its social development activities, influenced the company to change its social investment approach to meet societies' expectations. Based on achieving project objectives and deriving mutual learning the community development partners who were collaborating enhanced the process of re-negotiating that was required for every new project. The evolution of the community partnership was linked to in a step-by-step re-negotiation and integration process of development projects and community affairs professionalism that developed by strategizing social investments.

Guerrilla movements and inconsistencies in the Colombian governmental system have negative effects on the longevity of the partnership between BPX and the communities in their operating areas. Transferring the ownership of community projects from BPX to the affected communities was used to counteract the durability of this partnership. The application of a long-term perspective towards a community development partnership ensures positive social impact even for the time when BP will be long gone.

7.4.3 Life-Cycle Partnership Development

When Hoechst and the Öko-Institut initially approach each other, both institutions were keen to talk about social and ecological risks that were induced by production from companies such as Hoechst. Soon thereafter, recognising the potential and openness for collaboration on specific issues, the partners jointly defined a project task that was embedded in each other's strategy. Hence, the core element of the partnership became a joint project for which an effective project planning and management system was established and put into practice. Hoechst and the Öko-Institut applied project management tools as far as possible. The joint project was carried out as planned.

At the beginning of the partnership, the precise formulation of the project task was of importance. This step was resource-intensive because of the different approaches of the partners to the development of a sustainable product assessment tool. The following step, the definition of the project boundaries, was a very sensitive one. Whereas the Öko-Institut wanted to involve Hoechst's most critical businesses, the company was more interested in conceptualising the assessment tool, without any frictions. After formulating the project boundaries, the project was divided into two phases, each of which had a different focus. While the purpose of the first was to develop a concept, within the second, the concept was applied and refined. The final project stage was the evaluation of the project results.

Formulating the project task, defining project boundaries, developing the project plan, conceptualising and testing, and finally evaluating the results were the elements that constituted the life-cycle of the joint project between Hoechst and the Öko-Institut. After the successful completion of the development of the product assessment tool, the partners began to think about new projects that might involve other subsidiaries from Hoechst and focus on new project tasks. A new project life-cycle thus began.

Within the different life-cycle stages, the partners experienced the limits of a sustainability assessment tool that was initially intended to be integrated into Hoechst's SMP. The Öko-Institut learned that theoretical, optimal, social and environmental concepts cannot always be integrated into business without specific adaptation. Hoechst, meanwhile learned that in order to implement the guiding principles of sustainable development, it is crucial to consider secondary and tertiary potential, as well as social and ecological risks. The company was able to build competence to understand and apply social and environmental impact assessments, whereas the Öko-Institut developed capabilities to consider business and financial concerns for the assessment of companies' induced risks on society.

There were no milestones for the development of the product assessment tool. However, the partnership agreement was limited to a specific project task. Therefore, the co-operation between Hoechst and the Öko-Institut was bounded with regard to the time horizon. For the same reason, the durability of the partnership was pre-limited to the time of the specific project accomplishment. However, new joint projects will be planned.

7.4.4 Spiralling Partnership Development

The process of developing partnership between Hoechst and its surrounding communities began as a joint idea between the company and a green community pressure group. At with its North American operations, Hoechst already had experiences with community advisory panels. However, the operational and social conditions of the two are so different that no direct transmission was possible. A series of chemical accidents finally forced Hoechst to undertake immediate actions that included a need to change its relationships with its communities. Consequently, Hoechst and its communities set up a Community Discussion Group (CDG). However, the partners did not know in which way this discussion group could work so that it was not possible to pre-determine issues such as the constitution of the CDG or the process of decision-making. The discussion began with a focus on the aftermath of Hoechst's chemical accidents, but it was not predictable which issues would follow. Hence, the partnership was emerging, rather than planned.

For the community to learn that business is not a welfare institution, but not evil either, and for Hoechst to learn that its surrounding communities are not only critics but an integral part of its business environment, is an outcome of a continuous trust-building exercise. The partners learned that they can work together for mutual benefit. Therefore, trust building was an activity which operated at every discussion, but from changing perspectives, and remained unfinished. Consequently, the success of the CDG depended on the extent to which the partners were able to build trust and repeat this behaviour for every emerging social and environmental conflict issues. Hoechst and its communities recognised this and embedded the partnership building in a long-term horizon.

A spiralling process rather than an incremental, stepwise or life-cycle process characterises the evolution of the partnership between Hoechst and the Öko-Institut. After discussion and solving of most of the issues resulting from the aftermath of Hoechst's chemical accidents, the CDG renewed itself and began to focus on both related and new issues. In addition, with a new discussion round, the statute of the CDG was revised as well. However, there were no gradual qualitative improvements or defined stages. Renewal in this context means continuous application of the same procedures but with new issues for discussions. At the centre of these discourses lies a continual trust building exercise.

In addition, a replication of the CDG became inevitable because of Hoechst's restructuring and the fact that the potential social conflict between the company and its surrounding communities became linked to autonomous companies. Positive experiences, learning and trust built up, with the first CDG assisted in setting-up a second one. The continuous successful renewal of the first and flourishing establishment of a second CDG provides evidence that the durability of the CDG may be certain.

Chapter 8 INFERENCES FOR PARTNERSHIP BUILDING

A new paradigm of innovation is emerging: a partnership between private enterprise and public interest that produces profitable and sustainable change for both sides.

Rosabeth Moss Kantor (1999)

This chapter presents the inferences for stakeholder partnership building. It is the reasoning involved in making a logical judgement on the basis of circumstantial evidence and prior conclusions rather than on the basis of direct observations. The defining elements of partnership alchemy are transformed into the 4-Ps for stakeholder partnership building and provide the framework for this chapter:

- Purpose of partnerships;
- Pacts for partnerships;
- Power relationships in partnerships; and
- Processes of partnership developments.

These four elements of partnership alchemy are part of an emerging paradigm of social innovations. Each analysed stakeholder partnership represents a diverse purpose, pact, power relationship and process of partnership development. Therefore, all analysed stakeholder partnerships are fundamentally different in every defining partnership alchemy element. For each element, five describing variables have been identified which enable the similarities and differences between various purposes, pacts, power relationships, and processes of stakeholder partnership developments to be analysed.

The similarities and differences between the variables of the elements of partnership alchemy thus identified are applied to analyse and describe their diversity. The examined characteristics of BP's and Hoechst's practice of navigating social risk are utilised as firm specific context variables, to explain the variance among the partnership alchemy elements. This approach provides the opportunity to identify whether the analysed stakeholder partnership building features are firm-specific, or rather, partnership-specific.

8.1 PURPOSE OF PARTNERSHIPS

The purpose of partnerships is the first defining element of partnership alchemy. It is the anticipated outcome that is intended, and guides stakeholder partnership building actions. For this analysis, the purpose of stakeholder partnership building is defined as the internal function of a partnership. Moreover, it is the synergy potential that describes the intent for stakeholder engagements. Each analysed stakeholder partnership serves a different purpose. The interpretations of the four functions of the examined stakeholder partnerships are the outcome of the analysis of the ends and means of stakeholder partnership building. Five variables are applied to describe the four different purposes: strategic objective, context, content, joint interest, and source for benefits. Acquiring knowledge, co-financing social investment, combining competence, and improving communications are the analysed stakeholder partnership building functions.

ACQUIRING KNOWLEDGE – is the process of coming into possession of concrete or abstract information that adds value. Within stakeholder partnerships, business and stakeholders gain knowledge from each other. The partners require the acquired knowledge to accomplish their strategic targets. BP aimed to adapt its policy to environmental changes. The target of the IAG was to develop guidelines for the excavation industry in less developed countries. Hence, the strategic objectives were similar. Based on this similarity, BP and the NGOs had a joint interest in improving the human rights records of Colombia and in particular in BPX's operating environment. However, business policy issues comprised the context of the partnership. Consequently, the content, the actions of the BP and IAG partnership was conversations that composed a dialogue. The source of benefits for both partners was the potential to exchange knowledge. Therefore, the purpose of the partnership between BP and the IAG was to acquire each other's knowledge that assisted to achieve the strategic objective of changing business policy.

CO-FINANCING SOCIAL INVESTMENT – is the process by which two or more partners provide resources for a joint investment. Within the context of stakeholder partnership building, the notion of resources for co-financing social investments is broad and comprises besides the primary financial resource also managerial resources. For the partnership between BPX and its communities it was crucial to transfer the ownership of social development projects to the communities that were involved and affected. Co-financed social investment was an effective approach for social impact management. Both, the company and the communities were convinced that social impact management was the key to sustainable development. On that basis, BPX and its communities not only had a similar strategic objective, but also a joint interest in social development. Consequently, the partnership's context was social investment. Because these investments are managed on a project-by-project basis, various community development projects represented the content of the co-operation. Enhancement of social investment efficiency was the consequent source of benefits for both partners. Co-financing social investments as the purpose of the partnership was considered as the ends to the means of managing social impact for sustainable community development.

COMBINING COMPETENCE – is the process of joining competencies for a common purpose or in a common action. Competencies are defined by the quality of being adequately or well qualified, physically and intellectually, to fulfil a set target or achieve an objective. Competence is the product of the compounding of resources and skills. Combining competence, therefore, requires similar strategic objectives, which was the case in the partnership between Hoechst and the Öko-Institut. It was not only the objective of developing a product assessment tool that the partners shared; in addition, they pursued a joint interest of promoting sustainable development. The developed tool for measuring product sustainability was designed to be strategic in nature. Hence, the context of the partnership was the strategy for sustainable development. However, a specific project composed the content of the partnership between Hoechst and the Öko-Institut – the development of the product assessment tool. The source of benefit was the building of joint competence to fulfil the project task, but also to build new internal competence in each partner institution. Consequently, the purpose of the partnership was to combine competence, so as to develop a strategy tool for sustainability product assessment, to promote sustainable development.

IMPROVING COMMUNICATIONS – is the process of ameliorating the quantity and quality of communication between a sender and a recipient of information. Communication is a connection which allows access between persons or places. Within the context of stakeholder partnership building, improving communication is the enhancement of information exchange between business and stakeholders as well as the active participation of stakeholders in this process. To become an open company – Hoechst's strategic objective – and to gain access to information – the strategic objective of Hoechst's community – were similar to a certain extent because both partners aimed to exchange information with each other. This exchange of information was seen as an effective approach to social conflict management, Hoechst and the communities' joint interest. Communication was the context of this partnership, and the rules for communicating with each other were the content. Community communication was the source of benefit for both partners.

	Business-NGO Policy Dialogue	Community Development	Business-NGO Joint Project	Community Discussion Group
Strategic Objective	Similar	Similar	Similar	Similar
Joint Interest	Improving Human Rights	Social Development	Sustainable Development	Conflict Management
Context	Policy	Social Investment	Strategy	Communication
Content	Conversations	Various Projects	Specific Project	Communication Rules
Source for Benefits	Knowledge Exchange	Investment Efficiency	Building Joint Competence	Community Communication
Purpose	Acquiring Knowledge	Co-financing Social Investment	Combining Competence	Improving Communication

Table 15 Purpose of Partnerships

With regard to the five variables that have been applied to describe the purpose of partnerships, there is only one similarity between the four stakeholder partnership building purposes. The strategic objectives of the partners within each partnership were equivalent. However, each partnership pursued different strategic objectives. All other variables are different. The distinctions between the partnerships cannot be linked to firm specific features such as policy, processes or social capital. Hence, there is no evidence that the context – BP's and Hoechst's navigating of social risk – caused the differences between the purposes of partnerships. However, based on the fact that each variable that describes the partnership purposes is different in content, with the exception of the strategic objectives that are similar within but also different between the partnerships, there is evidence that the purpose of partnerships is partnership-specific.

8.2 Pacts for Partnerships

The second defining element of partnership alchemy is the pact for partnership. A pact may be defined as a written or unwritten agreement between at least two partners from government, society or business. For the purpose of this analysis, the pact for stakeholder partnership building is defined as the agreement between the involved partners that was aimed to serve the purpose of the stakeholder partnership. It is the core activity of the stakeholder engagement that describes the pact for partnerships. Each analysed stakeholder partnership represents a different pact. The interpretations of the four pacts of the examined stakeholder partnerships are the outcome of the analysis that is entitled: half way between handshake and contract. Five variables are applied to describe the four different pacts: basis, partner selection, structure, agreement, and independence. Dialogue, joint venture, joint project, and alliance are the analysed pacts for partnership building.

Dialogue – was originally a literary composition in the form of a conversation between two people or, in other words, the lines spoken by characters in drama or fiction. In the context of stakeholder partnership building, a dialogue is conversation between business and at least one of its stakeholders. Through dialogue it is possible to exchange information and acquire knowledge. The basis of the pact between BP and the IAG was based upon mutual assurance. BP needed the approval of the IAG, while the IAG in turn had to assure that it would maintain its integrity. The agreement of the partnership did not involve actions, only conversations. The structure of the dialogue was very informal. For instance, meetings were not planned, and no rules for conversations were fixed. Because only a few NGOs were experts in developing areas, the partner selection was limited. The agreement between BP and the IAG was an unwritten memorandum of understanding and, therefore, a verbal agreement. However, at all times, the partners were able to maintain their independence. The pact between BP and the IAG was an exclusive agreement for policy dialogue.

Joint venture – is a venture by a partnership or conglomerate designed to share risk or expertise. Joint ventures may well prove to be a useful, and indeed necessary, way to enter some new markets, especially for multinational firms. In terms of integrating its business into Colombia, the only way in which BPX could achieve effective social investment was through joint ventures with the affected communities, this being the only way to mitigate social risks. Hence, the basis of the pact between BPX and its communities in Colombia lay in the field of social expectations. The company's only partners were the surrounding communities and local authorities of its operating sites in Casanare. Therefore, the partnership selection was predetermined. The structure of the pact between BPX and its community was formal. Regular meetings were held and every investment project was renegotiated. For each social investment project an agreement was signed. Within joint ventures, clear equity positions are usually taken by the participants. However, BPX and its community partners as the only way to maintain its independence and integrity considered a formal pact structure and a separate signed agreement for each investment project. Consequently, a joint venture for social investments was the pact for the partnership between BPX and its surrounding communities to achieve sustainable social development.

JOINT PROJECT – is a combined, planned undertaking between at least two or more involved partners. It is a partnership in which a task is carried out together. Often resources, skills or competence are combined to achieve the joint project objective. The agreement is limited to the project task. In the context of stakeholder partnership building, a joint project is defined by partnering between a company and at least one of its stakeholders for the accomplishment of a joint-task. Within the partnership between Hoechst and the Öko-Institut, this task was the development of a sustainability product assessment tool. However, because the history of the two partners was conflict-loaded, mutual trust had to be built and established the basis for the partnership pact. The Öko-Institut was not the only competent critic that could assist Hoechst in developing the product assessment tool. However, it was the only stakeholder that was willing to engage in this joint project with the company. Therefore, the partnership selection was predetermined. Since the rules of the agreement were based on the differing competence that the partners contributed to the joint project, the structure of the partnership pact was informal. Hoechst and the Öko-Institut maintained their independence by a verbal agreement for this joint project.

ALLIANCE – is the state of being allied or confederated. It is a connection based on common interest. An alliance is an organisation of people involved in a pact or treaty. It is often a formal agreement establishing an association between nations or other groups to achieve a particular aim. Alliances are a lesser form of participation when compared with joint ventures, which may or may not involve equity participation. With regard to stakeholder partnership building, an alliance is defined as a formal agreement between a company and at least one of its stakeholders to establish an association with a particular aim. The aim of the pact between Hoechst and its surrounding communities was the improvement of communication. Because Hoechst's managers and community representatives already had personal contact, they established the basis of the pact for the partnership. In addition, because company's partners could only be its surrounding communities, the partnership selection was predetermined. The community discussion group had a very formal structure. The statute was negotiated, and composed a codified but unsigned pact agreement. On that basis Hoechst and the involved community representatives were able to maintain their independence within the alliance for a community discussion group.

	Business-NGO Policy Dialogue	Community Development	Business-NGO Joint Project	Community Discussion Group
Basis	Mutual Assurance	Social Expectations	Mutual Trust	Personal Contacts
Partner Selection	Limited	Predetermined	Predetermined	Predetermined
Structure	Informal	Formal	Informal	Formal
Agreement	Verbal	Signed	Verbal	Codified
Independence	Maintained	Maintained	Maintained	Maintained
Pact	Dialogue	Joint Venture	Joint Project	Alliance

Table 16 Pacts for Partnerships

With regard to the five variables that have been applied to describe the pacts for partnerships, there is only one similarity between the four diverse stakeholder partnership building pacts. Each partnership pact was designed to maintain the partners' independence. However, there were also partial similarities with regards to stakeholder partner selection, structure and agreement. The only stringent difference exists in terms of the basis for the partnership pacts. No links between the differences or similarities of the stakeholder partnership pact variables and the context of BP's and Hoechst's risk management approach could be established. Hence, there is no evidence, that the pacts for partnerships dependent on the are social risk management context. Consequently, the four different pacts for partnerships analysed are partnership-specific.

8.3 Power Relationships in Partnerships

Power relationships in partnership constitute the third defining element of partnership alchemy. The preferred linguistic usage of relationship is for human relations. It defines a state of connectedness between people, where mutual dealings between people, parties or countries are involved. In the context of stakeholder partnership building, power relationships form an important consideration. Power is the possession of controlling influence, so power relationships can cause dependence on a partner if one partner to influence the other exercises power. If power relationships are balanced, they lead to interdependence or independence. Each partnership is characterised by a different power relationship. The interpretation of the power relationships is direct outcome of the partnership alchemy section entitled 'harnessing power for partnerships'. Five variables are applied to describe the four different power relationships: source, balance mechanism, dominance, consequence, and application. Cyclic reputation, balanced commitment, balanced competence, and regulated knowledge interdependencies are the analysed power relationships.

Cyclic reputation interdependency – is a relationship of power within a stakeholder partnership that is defined by recurring unilateral dependency of the involved partners. The partners' growth and lost of reputation is determining the cycle of the dependency. However, over time the power relationship is balanced and the partners are interdependent. Therefore, the source of power is reputation, as was the case in the partnership between BP and the IAG. Because the degree of reputation depends on the effect of incidents such as PR initiatives or crises, the power balance mechanism can be seen to be incident driven. Hence, the dominance of BP and the IAG in their partnership was cyclic depending on critical incidents. Because the partnership was long-term orientated rather than designed to manage one specific incident, the consequence for the power relationship was interdependency. However, BP and the IAG were aware of how to apply reputation as a source of power and exercised their power to gain access to each other's knowledge. Consequently, the power relationship of the business-NGO policy dialogue was a cyclic reputation interdependency.

Balanced commitment interdependency – is a power relationship of a stakeholder partnership that is defined as the equilibrium of engagements by agreement involving financial or other obligations. Interdependency is maintained as long as the equilibrium of engagements is obtained. The commitments with regard to the partnership between BPX and its surrounding communities were linked to community development projects. If not all involved partners were committed to a specific social investment project, as their commitment was needed to achieve the project objective, projects failed, were inefficient or not put into practice at all. Hence, the source of power within this stakeholder partnership resisted in commitments for community development projects. The partners' search to meet social expectations composed the power balance mechanism. If all partners were committed to meet the same social expectation, the power relationship remained balanced. The consequence for the power relationship of the partnership between BPX and its communities was interdependence. The balanced commitment interdependence assisted the partners by transferring the ownership of social investment project to the involved communities.

BALANCED COMPETENCE INTERDEPENDENCY – is a power relationship of a stakeholder partnership that is defined as an equilibrium of the involved partners' quality of being adequately or well qualified, physically and intellectually, to achieve partnership objectives. Interdependency is maintained as long as the involved partners contribute high quality competence that is required to fulfil the partnership task and establish a competence equilibrium. That way a reciprocal dependency is achieved. In the case of the partnership between Hoechst and the Öko-Institut, the partners were required to combine their competence, so as to achieve influence. Consequently, competence became the source of power of this stakeholder partnership. However, Hoechst and the Öko-Institut tried to avoid exercising the source of power because to achieve the joint project task the partner needed each other's competence. This mutual need for competence established a power balance mechanism that ultimately led to a balanced dominance between Hoechst and the Öko-Institut and as consequence to interdependence. Both partners were aware of the balanced competence interdependence and applied a power relationship to maintain autonomy.

REGULATED KNOWLEDGE INTERDEPENDENCY – is a power relationship of a stakeholder partnership that is characterised by controlled or governed usage of knowledge of the involved partners. The use of knowledge can be regulated formally or informally. Interdependency is based on the regulation for the application of knowledge. In the case of the CDG between Hoechst and its surrounding communities, knowledge was the source of power. The company could have used its specialist knowledge to mislead or confuse the community representatives. Whereas the community representatives could have used their knowledge about how to use the public for its purpose, in order to manipulate or control the company. Therefore, a power balance mechanism needed to be established that would regulate the use of Hoechst's and community representatives' knowledge. The statute for the CDG was the solution that also led to a regulated dominance of the involved partners. As a consequence of the applied statute, interdependence was created. Hoechst and its surrounding communities applied this regulated knowledge interdependency as a discussion assurance. The power relationship limited the misuse of the partnership.

	Business-NGO Policy Dialogue	Community Development	Business-NGO Joint Project	Community Discussion Group
Source	Reputation	Commitment	Competence	Knowledge
Balance Mechanism	Incident Driven	Social Expectation	Competence Need	Statute
Dominance	Cyclic	Balanced	Balanced	Regulated
Consequence	Interdependence	Interdependence	Interdependence	Interdependence
Application	Gain Access to Knowledge	Community Ownership	Maintain Autonomy	Discussion Assurance
Power Relationships	Cyclic Reputation Interdependence	Balanced Commitment Interdependence	Balanced Competence Interdependence	Regulated Knowledge Interdependence

Table 17 Power Relationships in Partnerships

With regard to the five variables that have been applied to describe the power relationships in partnerships, there is only one similarity between the four diverse stakeholder partnership building power relationships. The consequence of the power relationships in all stakeholder partnerships was interdependence between the involved partners. However, because of various sources of power, power balance mechanisms, dominance, and power application the power relationships are different in at least one defining feature. There is no evidence that the similarities or differences of the power relationships are driven by the firm specific context of BP's and Hoechst's management of social risk. Consequently, because all partnerships are different in nature, it can be assumed that the power relationships in partnerships are partnership-specific rather than firm-specific.

8.4 PROCESSES OF PARTNERSHIP DEVELOPMENTS

The process of partnership development is the fourth defining elements of partnership alchemy. A process is a sequence of individual and collective events, actions and activities unfolding over time and in a set context. It is a particular course of action intended to achieve certain results. Development is a process in which something passes by degrees to a more advanced or mature stage. It is an act of improving by expanding, enlarging or refining. For this analysis, the process of partnership development is defined as the course of action by which a stakeholder partnership passes by degrees to a more advanced or mature stage, unfolding over time and context. The advancement can be measured by the fulfilment of the partnership objectives. Each analysed stakeholder partnership can be seen to develop in a different way. The interpretation of the four diverse processes is an outcome of the analysis of the development of stakeholder partnerships over time. Five variables are applied to describe the four different processes: direction, evolution, time horizon, actions, and durability. Incremental adaptation, stepwise strategizing, life-cycle learning, and spiralling trust building are the building processes of the stakeholder partnerships analysed.

INCREMENTAL ADAPTATION – is a process of partnership development characterised by gradually increasing, by regular degrees of adjustments on the environment. It is a uniform linear process by which the involved partners adapt to each other. For the partnership between BP and the IAG, this adjustment was crucial to provide the partners with the ability to acquire each other's knowledge. However, it was not clear in which direction this partnership would develop. Nor was it possible to plan its development. The direction of BP's and the IAG's partnership was emergent. Every conversation enhanced the partnership quality by regular degrees. There were no sudden drops or increases. Hence, it was an incremental evolution aiming to build a long-term partnership. BP's and the IAG's behaviour was orientated on this time horizon. The actions of the partnership were driven by adaptation. The company and the NGOs had to adjust their behaviour not only to the changed environment but also to meet expectations of the respective partner. However, this was no guarantee for endurance. Durability of the partnership was uncertain, since the co-operation depended on partners' reputation, and was incident driven.

STEPWISE STRATEGIZING – is a process of partnership development that is defined by the sequence of events, actions and activities that puts strategy into practice. The succession of process elements is determined by proceeding in steps, one thing at one time. Hence, the process can be depicted as a staircase. Every step is a process element and the level of the step is the extent to which the strategy was put into practice. A strategy is an elaborate and systematic plan for interacting with the environment to achieve set goals. BPX had its social development plan and the communities a community development plan. These were brought together to set up a strategy. Therefore, the partnership between BPX and its surrounding communities was planned but embedded in a long-term perspective as time horizon for this co-operation. However, since the strategy comprised various projects over a long period of time, every project was renegotiated before the partners started to put it into practice. Consequently, strategizing was the primary action of the partnership, leading to a stepwise evolution. The durability was dependent on various factors such as political issues and the lifespan of BPX's operations in Colombia.

LIFE-CYCLE LEARNING – is a process of partnership development that is characterised by a series of stages through which a partnership passes between recurrences of a primary stage. Learning, the cognitive process of acquiring skill or knowledge, is the driver of this development. Partners begin to co-operate with different competencies, learning from each other, building new and joint competencies, and finally entering a mature stage where further learning with regards to the partnership objective would not add significant value. The objective of the partnership between Hoechst and the Öko-Institut was to develop a product assessment tool. Since this joint project was specifically designed to fulfil a defined task, the direction of the partnership development was planned and its time horizon bounded. The partners composed the project in stages. Whereas learning from each other was important at the beginning, later competencies were developed and applied until the project objective was accomplished. Hence, it was a life-cycle learning partnership. Because the time horizon was bounded, the durability of the joint project was pre-limited. However, new projects are underway and new life-cycle learning begins.

SPIRALLING TRUST BUILDING – is a process of partnership building that is characterised by a recurring course of establishing faith into the involved partners. It is a process of constant renewal but covering different issues. Consequently, since the partnership is progressing over time, it can be portrayed like a spiral rather than a circle. Trust is something held by someone for the benefit of another. For the partnership between Hoechst and its surrounding communities, trust building was certainly in the centre for the activities of the CDG. However, because none of the partners knew how to set up a discussion group and the issues that were covered by the CDG changed depending on Hoechst's business practice and critical incidents, the direction of the partnership development could not be planned and was therefore rather emergent. The discussion of each covered social conflict issue by the CDG was associated with a trust building circle. However, because the issues discussed by the CDG change over time, the CDG renewed itself by beginning a new trust building circle with a new discussion round. Since one discussion led to the next, the circles of trust building were connected and conducted to a spiralling evolution of the partnership, emphasising a long-term horizon. With this spiralling trust building development, the CDG created certain durability for which the replication of the CDG provides some evidence.

	Business-NGO Policy Dialogue	Community Development	Business-NGO Joint Project	Community Discussion Group
Direction	Emergent	Planned	Planned	Emergent
Evolution	Incremental	Stepwise	Life-Cycle	Spiralling
Time Horizon	Long-term	Long-term	Bounded	Long-term
Actions	Adaptation	Strategizing	Learning	Trust Building
Durability	Uncertain	Dependent	Pre-limited	Certain
Process	Incremental Adaptation	Stepwise Strategizing	Life-Cycle Learning	Spiralling Trust Building

Table 18 Processes of Partnership Developments

With regard to the five variables that have been applied to describe the processes of partnership developments, there are no stringent similarities between the four divers partnership development processes. Two process directions were planned and two emergent. Three partnerships were long-term orientated, whereas one bounded at the beginning. The partnership evolution, development actions and the durability of the partnerships are most fundamentally different. However, no evidence could be found in the firm specific context of BP's and Hoechst's social risk management that could explain the similarities and differences. Consequently, it can be assumed that the analysed processes of partnership developments are partnership-specific rather than firm-specific.

Part IV Research Synopsis and Reflection

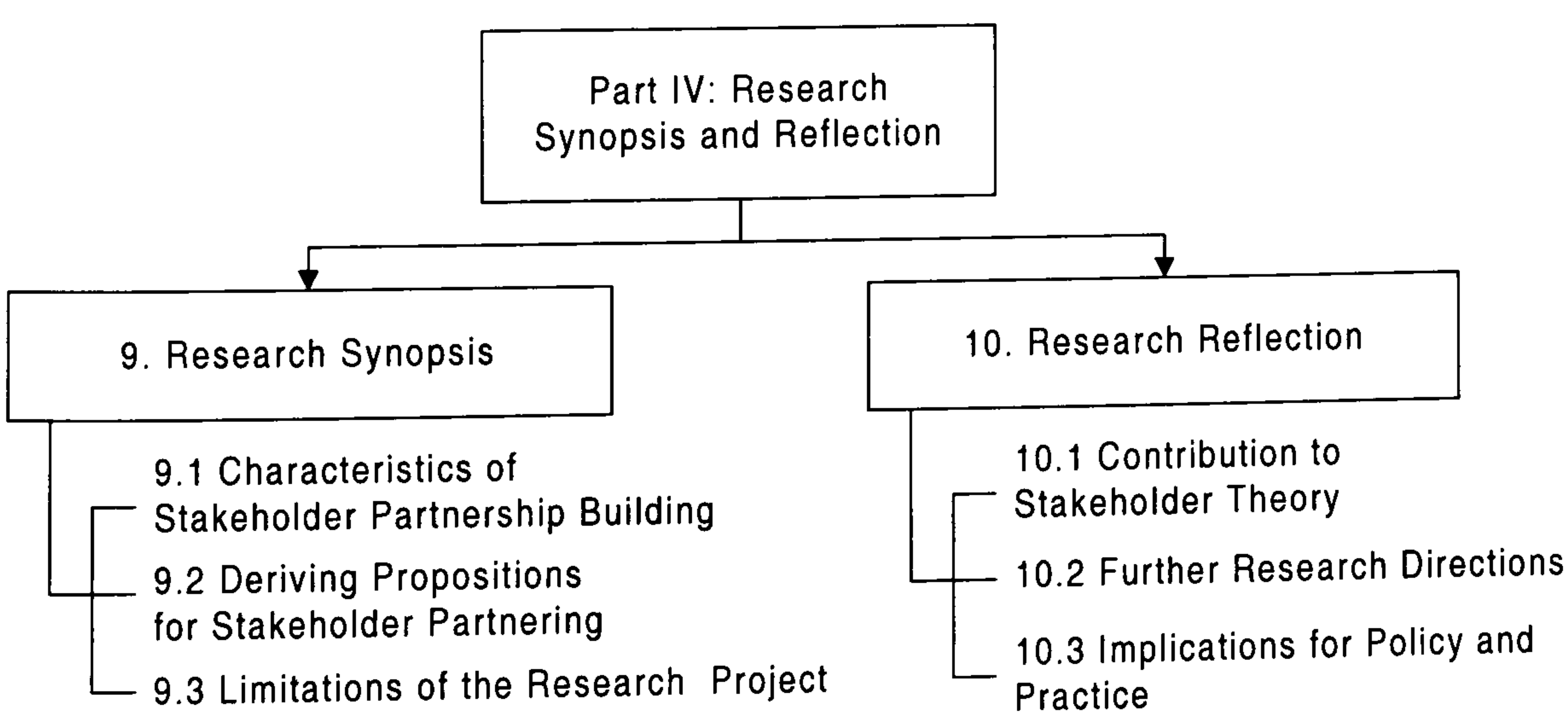
Philosophy have I digested, The whole of Law and Medicine, From each its secrets I have wrested, Theology, alas, thrown in. Poor fool, with all this sweated lore, I stand no wiser than I was before. [...] All plague of doubts and scruples I can quell, And have no fear of devil or of hell, And in return am destitute of pleasure, Knowing that knowledge tricks us beyond measure, That man's conversion is beyond my reach, Knowing the emptiness of what I teach.

Johann Wolfgang von Goethe (1949)

The remaining issues, namely the research synopsis and the research reflection, form the contents of the final part of this thesis.

The research synopsis summarises the characteristics of stakeholder partnership building and, on this basis, presents propositions that can be applied to stakeholder partnering. Both parts represent the contribution of this research to the extension of the behavioural stakeholder theory, by introducing a stakeholder partnership building theory. The final section of the synopsis focuses on the limitations of this research project.

The research reflection aims to put the contribution of the stakeholder partnership building research into a wider context. The research findings are embedded in stakeholder theory. In addition to the contribution of this thesis to stakeholder theory, the empirical data constitutes a contribution to knowledge in its own right. Further research directions are presented and implications for policy and practice are suggested.



Chapter 9 RESEARCH SYNOPSIS

> *Always aim at the entirety, and, if you itself cannot become entirety, as serving link join the entirety.*
>
> Friedrich Schiller (1957)

Nowadays business, society and government are learning to live with the realities of economic globalisation, technological transformation, demographic changes and political transitions. These new realities are creating unprecedented opportunities for institutions, groups and individuals, but increased insecurity and inequality for others. In almost every country, it is possible to find cosmopolitan pockets of growing affluence, high technology, world class social service and increased economic competitiveness existing side-by-side with rising unemployment, inadequate skills, low incomes, poor housing, family breakdown, crime, ethnic conflict and environmental deterioration.

Business is a driving force for positive change, but may also be a direct cause of social conflict. To develop an improved relationship with society, one way for companies is to engage with prioritised stakeholders. Accordingly, managing social risk through stakeholder partnership building has been the focus of this research project. The present chapter provides a research synopsis, a summary of the main points of the empirical descriptive process analysis of stakeholder partnerships from BP in Colombia and Hoechst in Germany. First, the characteristics of stakeholder partnership building are summarised before, five propositions derived from such a process are presented. The final part reflects on limitations of this research project.

Partnership alchemy and propositions for stakeholder partnership building do not only provide the main contribution of this research, they also serve as a link to existing knowledge within the fields of business and society, stakeholder theory and strategic relationships. This is achieved by introducing stakeholder partnership building as a behavioural stakeholder theory.

9.1 CHARACTERISTICS OF STAKEHOLDER PARTNERSHIP BUILDING

This research has sought to locate stakeholder partnership building within the context of managing social risk. Two companies were studied and two stakeholder partnerships of each company were analysed. BP was engaged in a partnership with a group of development NGOs in the United Kingdom and BPX, BP's exploration subsidiary, was in partnership with its surrounding communities in Colombia. Hoechst in Germany was involved in a partnership with a green NGO but also with its surrounding community. For this research, the practice of firms' social risk management was described chronologically. The diversity of the cases was deliberately chosen to increase the variance between the cases and thus to enhance the validity of the data collected and analysed.

To answer the leading research question of how firms build stakeholder partnerships, first, the features of BP's and Hoechst's social risk navigation were analysed with regard to policy, the connecting of processes with the expectations of society, and social capital. These social risk management characteristics served as control variables for the interpretation of similarities and differences of the four analysed processes of stakeholder partnership building. For each of the three social risk navigation contexts, the normative, behavioural and instrumental context, five different descriptions were identified. BP and Hoechst developed two distinguishing approaches to navigating the social risk that their activities brought about. The differences were caused by the operational context of the companies rather than organisation's specific characteristics. However, for the interpretation of the analysed variables of stakeholder partnership building, the features of firms' approach to navigating social risk represent firm specific contexts.

The second part of the research question concentrated on identifying the main elements of partnership alchemy. These elements are categorised in terms of purposes of partnerships, pacts for partnerships, power relations in partnerships, and processes of partnership developments. To analyse each element of partnership alchemy with regard to four partnerships, five variables are identified to enable description and differentiation among and between the elements of partnership alchemy. Each of the four analysed stakeholder partnerships represents a different purpose, pact, power relation, and process of partnership development. These four are the defining elements of partnership alchemy and entitled as the 4-Ps for stakeholder partnership building. Since every analysed stakeholder partnership represents a different set of the 4-Ps of stakeholder partnership building, there are four distinctive clusters of the elements of partnership alchemy. The table below shows the 4-Ps of stakeholder partnership building and the diverse aspects of each of the analysed stakeholder partnerships, whereas the rows represent the four different partnerships and, therefore, the four deriving patterns of stakeholder partnership building.

Purpose	Pact	Power Relations	Process of Development
▪ Acquiring Knowledge	▪ Dialogue	▪ Cyclic Reputation Interdependency	▪ Incremental Adaptation
▪ Co-financing Social Investment	▪ Joint Venture	▪ Balanced Commitment Interdependency	▪ Stepwise Strategizing
▪ Combining Competence	▪ Joint Project	▪ Balanced Competence Interdependency	▪ Life-Cycle Learning
▪ Improving Communication	▪ Alliance	▪ Regulated Knowledge Interdependency	▪ Spiralling Trust Building

Table 19 4-Ps of Stakeholder Partnership Building

The final part of the research question focuses on the similarities and differences of stakeholder partnership building. The firm specific context variables were applied to find evidence for possible links between the four analysed patterns of stakeholder partnership building and BP's and Hoechst's approach to social risk management. Since no correlation could be made, it is evident that the partnerships, and therefore its similarities and differences, were partnership-specific rather than context driven. However, no evidence could be found that the stakeholder partnership building patterns are partnership-specific with general regard to business-NGO or business-community partnerships.

9.2 Deriving Propositions for Stakeholder Partnering

On the basis of the analysed context of navigating social risk and the four different processes of partnership building that are described by the 4-Ps of stakeholder partnership building, five propositions are developed. Four theories propose patterns of stakeholder partnership building: dialogue partnering, joint venture partnering, joint project partnering, and alliance partnering. The fifth proposition suggests a determination mechanism for stakeholder partnership building patterns.

1. DIALOGUE PARTNERING: If a stakeholder partnership's purpose is to acquire knowledge, it is likely that the involved partners will engage in a pact for dialogue. Cyclic reputation interdependency is the power relationship that influences the dialogue and leads to an incremental adaptation as process of the partnership development.

2. JOINT VENTURE PARTNERING: If a stakeholder partnership's purpose is to co-finance social investment, it is likely that the involved partners will engage in a joint venture pact. Balanced commitment interdependency it the power relationship that influences the joint venture and leads to stepwise strategizing as an integral process of partnership development.

3. JOINT PROJECT PARTNERING: If the purpose of stakeholder partnership is to combine levels of competence, it is likely that the involved partners will engage in a joint project pact. Balanced competence interdependency is the power relationship that influences the joint project and leads to life-cycle as process of the partnership development.

4. ALLIANCE PARTNERING: If the purpose of stakeholder partnership is to improve communication, it is likely that the involved partners will engage in an alliance pact. Regulated knowledge interdependency is the power relationship that influences the alliance and leads to spiralling trust-building as process of the partnership development.

5. PARTNERSHIP BUILDING DETERMINATION: If a stakeholder partnership fits into one of the above proposed stakeholder partnership building patterns, and assists a company in its management of social risk, stakeholder partnership building and, therefore, the determination of the stakeholder partnership building pattern is partnership-specific rather than firm-specific.

The propositions are the outcome of the study of stakeholder partnership building in the context of social risk management, and these can be further examined. Four underlying mechanisms of stakeholder partnership building and the context that determines the process of stakeholder partnership building are suggested. The 4-Ps of stakeholder partnership building, together with the descriptive variables of each partnership alchemy element, provide the basis for the fives theses and for further research.

9.3 LIMITATIONS OF THE RESEARCH PROJECT

The present study aims to give a representative picture of managing social risk through stakeholder partnership building, and seeks to analyse the defining characteristics of the process of partnership building. However, the findings should be read with a number of methodological reservations borne in mind. Social reality is not steady. It is, rather, a dynamic process. What is true today may be false tomorrow, or at different places in different contexts. Therefore, studying processes necessitates thinking about time, history and processes. Just as actions are embedded in contexts which limit their information, insight and influence, so actors are producers and products, and language becomes an analytical prison. However, there are some more specific limitations to this research project.

To study stakeholder partnership building, four partnerships were selected from two companies. This can be seen as a process of empirical sampling. However, cases were not selected to fit the argument, rather theories evolve on the basis of the framework for studying stakeholder partnerships. Companies were chosen that were involved in social dramas and engaged in stakeholder partnerships to manage deriving challenges. Although the research did not study crisis management, it may be that the aftermath of critical incidents not only highlighted, but also influenced the stakeholder partnership building process. In addition, because the research was an in-depth, qualitative case study, only four stakeholder partnerships could be analysed. An analysis of partnerships in different context might present further patterns of stakeholder partnership building.

The quality of the collected data by interviews may be limited because interviewees were influenced by critical incidents. For instance, NGOs were probably even more critical about business and business was more critical about the NGOs. Also, it is likely that when the interviewer conducted the fieldwork that recommend potential interviewees were sometimes in line with the thinking of those who recommend them, rather than critical and reflective. Data triangulation was applied for the data collection and analysis to level this limitation.

Because of the sensitive nature of the critical incidents that the companies faced, it was sometimes hard to get access to interviewees. In the case of the partnership between BPX and its community in Colombia, it was necessary to visit country to collect interview data.
the

Due to the political situation, only a few community representatives could be interviewed that were involved in the partnership with BPX. For this reason, third party representatives were also interviewed such as researchers that had access to community representatives or people that worked for or with community representatives but were not an employed by BPX. However, because this research focuses on the macro level of stakeholder partnership building rather than on the micro level, the data that could be collected were sufficient for the analysis of stakeholder partnership building.

Another limitation of the data collection was that in order to gather data about the past by interviews, interviewees had to remember those practices that predated actual processes. Often people change their job title and, at the time of the interview, they were thus detached from their former responsibilities and sometimes developed a different thinking about their past involvement and performance. Further limitations are based on institutional or inter-personal politics that sometimes limited access to data. Because some data were confidential, the way it could be presented in the thesis without harming institutions or individuals that provided the information needed to be negotiated.

Data was collected over a period of more than a year, so the resulting close involvement that such work leads to might have influenced the analysis and interpretation of the collected data. Furthermore, since three languages were needed to collect, analyse and interpret the data, language was probably an analytical limitation and some data or meanings were lost in translation.

It is hardly possible to talk about processes without discussing human agents in context. However, regardless of whether researchers focus on the micro or macro level of analysis, some data may not enough be considered for the interpretation of the research findings. A final limitation of this research is based in the search for multiple inter-setting conditions that link features of context and process to a certain outcome. Since no outcome variable was selected for this study, there is no evidence that the deriving patterns of stakeholder partnership building represents success or failure with regard to certain partnership performance.

Chapter 10 RESEARCH REFLECTION

The creation of an economy where we are inventing and producing goods and services of quality needs the engagement of the whole country. We need to build a relationship of trust not just within a firm but within a society. By trust I mean the recognition of mutual purpose for which we work together and in which we all benefit. It is a Stakeholder Economy in which opportunity is available to all, advancement is through merit and from which no group or class is set apart or excluded.

Tony Blair (1996)

The last 20 years have seen stakeholder theory come to cover a large and multifaceted area of management research. Beginning with an obscure reference in Igor Ansoff's book on corporate strategy in 1965 (Freeman, 1984) and growing to its current position in the popular media, the stakeholder idea has become a mainstay of management theory. For the entire analytical power stakeholder theory offers and its narrative refocusing on sets of stakeholder relationships rather than a narrow set of purely economic relationships, there is relatively little agreement on the scope of this theory.

Recent years have seen escalating support for the formation of stakeholder partnerships, and these have been seen as able to underpin a vast range of business activities and public interest agendas. Partnership models have been advocated, and these can be viewed as addressing a variety of social, ecological and economical issues. There is, furthermore, a growing recognition of the value of stakeholder partnerships. Opinion is divided, however, as to their broader impacts and potentials. With evolving partnership experience, it is now becoming possible to distinguish success from failure, and opportunity from threat. One size clearly does not fit all, and there is a need to encourage a more refined process of partnership development.

This research offers specific descriptive stakeholder partnering knowledge. The final chapter of this thesis provides a reflection on the analysed partnership building elements at a broader level. First the research findings are linked to stakeholder theory and the area of contribution is elaborated. Based on this reflection and on the outcome of the research project, a road map for further research is provided. Finally, suggestions for possible implications for policy and practice are given.

10.1 CONTRIBUTION TO STAKEHOLDER THEORY

Stakeholder theory has been a popular heuristics for describing the management environment for years, but it has not attained full theoretical status. As a theory the stakeholder approach is still based on normative thinking and explanations, which lack empirical evidence about the actual behaviour of companies and the conditions under which firms behave in the way, they do. This research emphasises the behavioural perspective of stakeholder theory. Therefore, the central research question is how firms behave with regard to their stakeholders. However, the intention of this research has not been to improve the reactive management approach of stakeholder analysis or influence strategies. The research outcome, rather, contributes to stakeholder theory extension by proposing a proactive management approach to stakeholder engagement. Hence, co-operations between business and stakeholders were the research focus for developing a concept of stakeholder partnership building. Existing stakeholder theory did not provide descriptions or explanations for stakeholder partnership building. The need for such an extension of the behavioural stakeholder theory derives from the demand of firms' environment for new forms of strategizing and economizing. Stakeholder partnership building is considered as one possible response to this environmental challenge.

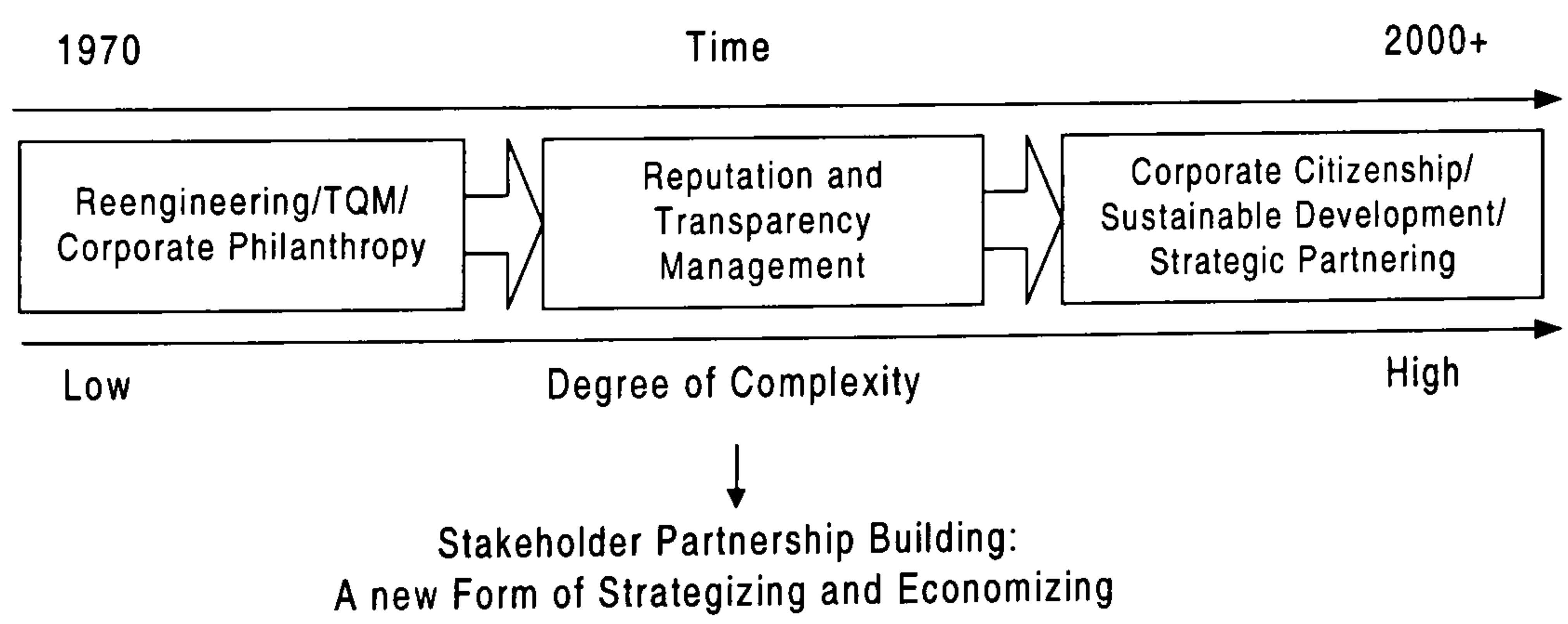


Figure 17 A new Form of Strategizing and Economizing

This research focuses on the specific application of stakeholder partnership building for the management of social risk. To describe such a phenomenon, three conceptual areas – business and society, stakeholder theory and strategic relationships – are combined to compose a theoretical framework for the empirical analysis. Interestingly, the conceptual competition within stakeholder theory is between power and legitimacy that reflect in virtually every major theory of the firm, particularly in agency, behavioural, institutional, population ecology, resource dependence, and transaction cost theories. Two complementary perspectives – resource dependence and institutional theory – are applied for this stakeholder theory research within the context of social risk management. With regard to these theoretical foundations there is a dichotomy within the description of the management of social risk through stakeholder partnership building that has been incorporated into the development of the concept of partnership alchemy. Some researchers consider that the key to organisational survival can be found within the adaptation to institutional pressure, whereas others consider it within organisation's ability to acquire and maintain resources. This research does not make this distinction. Rather, it combines both perspectives. However, the following graph depicts the dichotomy and issues that are taken into consideration for the research on stakeholder partnerships building.

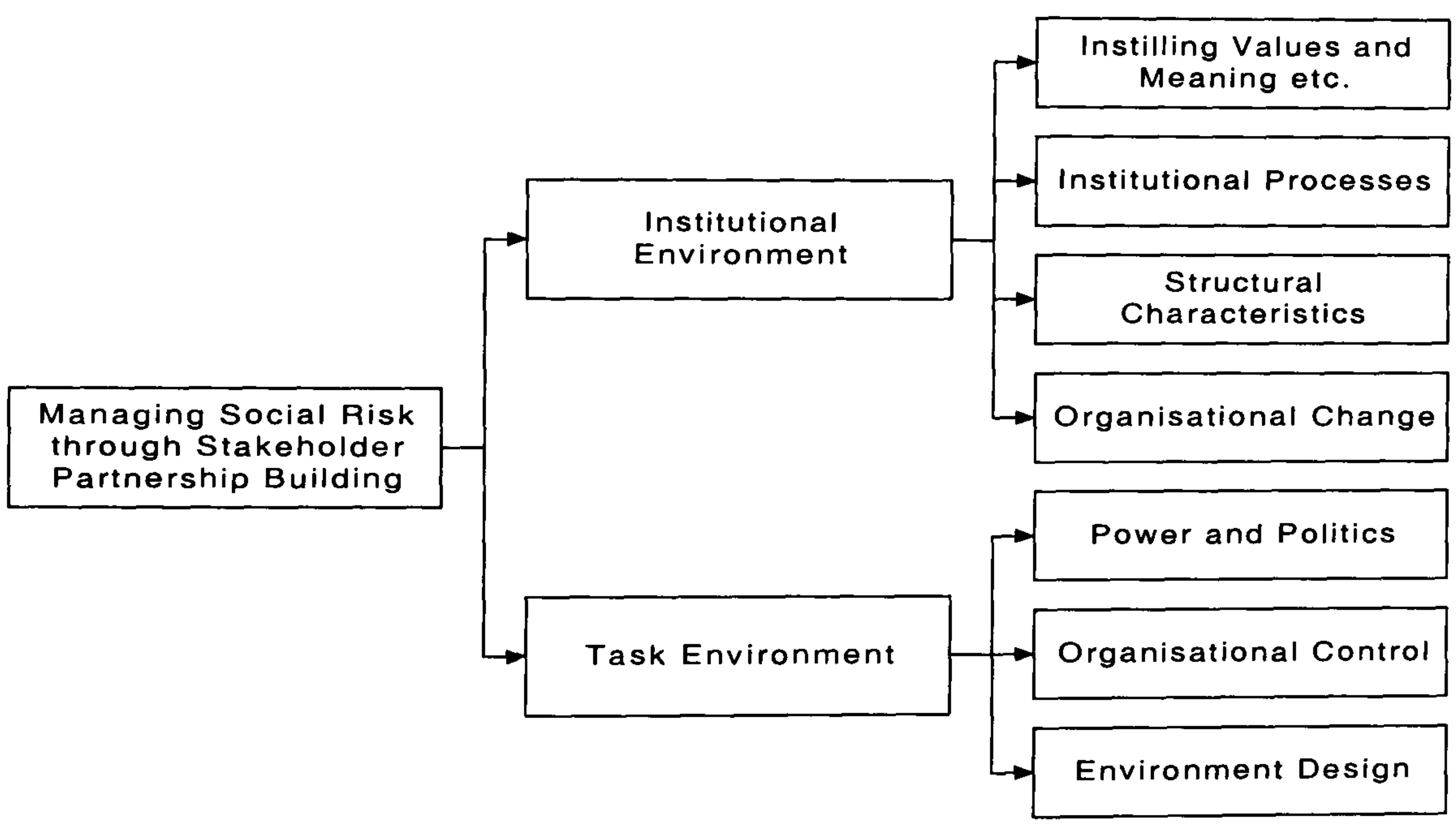


Figure 18 Stakeholder Partnership Building Environment Dichotomy

The specific contribution to behavioural stakeholder theory is the development of a theory of stakeholder partnership building in the context of social risk management. This theory is an extension to stakeholder theory rather than a testing, revision or expansion of existing parts of stakeholder theory. Stakeholder partnership building is a descriptive theoretical concept, developed out of empirical research and embedded in a specific context. The concept needs to be further developed, tested and its context extended. The 4-Ps of stakeholder partnership building, the descriptive variables and the deriving propositions for stakeholder partnering are the beginning of a new more proactive, engagement orientated behavioural stakeholder theory.

In addition to the contribution of this thesis to stakeholder theory, the empirical data forms a contribution to knowledge in its own right. This study provides a detailed insight into the practice of stakeholder partnership building in the context of social risk management. The quality of the data derives from five areas of empirical relevance.

First, social dramas are analysed rather than day-to-day business processes. The critical incidents that BP and Hoechst faced and the management of the aftermath had implications on firms' performance. Hence, social issues and stakeholder partnership building became part of business processes and integral element of firms' strategy. Studying social dramas highlights defining characteristics more than the study of day-to-day business processes.

The second empirical feature is the analysed time horizon. Instead of taking snap shots, this research studied longitudinal processes. Developments over time and the chronological analysis of stakeholder partnership building provide detailed historical validated accounts that enhance the quality of the empirical data.

The practice of social risk management as the context of this research establishes the third area of empirical relevance. Rather than focusing on legitimacy and power issues, this study incorporates both perspectives by concentrating on firms' navigation of social risk. On this basis, a holistic picture of the relevance of social issues in management is provided.

Fourthly, cases with high variance and similar outcomes are studied in detail, rather than similar cases with a high variance in their outcome. A balance between case similarities and differences was achieved by the case study sampling strategy. This approach enabled a rich comparative analysis and contributed to the four different identified patterns of stakeholder partnership building.

Finally, stakeholder partnerships are analysed rather than stakeholder characteristics, networks or influence strategies. The analysis of stakeholder partnership building encapsulates stakeholder characteristics, networks and influence strategies and, thus, provides a comprehensive picture of the participation of stakeholders in firms' strategizing.

Consequently, the contribution of this research did not only extended stakeholder theory and expanded the empirical evidence, but also provided the basis for further research in stakeholder theory and applications in the wider field of business strategy.

10.2 ROAD MAP FOR FURTHER RESEARCH

This study of managing social risk through stakeholder partnership building could be continued and extended in several ways to add further substances to the research findings. Three roads for further research can be approach from three different research directions to achieve descriptive, explanatory or prescriptive research outcomes.

This research project is empirically descriptive. The 4-Ps of partnership building, descriptive variables and five propositions are the outcome. To continue this research it would be interesting to describe the links between the four analysed patterns of partnership building and the performance of the four partnerships. Performances can be social or financial outcomes. To take this research further, performance causalities could be tested to explain whether links between partnership building patterns and partnership performance exist and if so to what extent these patterns affect performance. Furthermore, explanations about context and partnership-specific causalities would contribute to the understanding about the variance between partnerships and the effects on performance. Finally, prescriptive research can incorporate context, partnership building patterns and performance of partnerships into a framework to determine boundaries of stakeholder partnership building.

Further descriptive research that analyses partnerships with other stakeholders than NGOs and communities and partnerships that focus on other than social issues can extend this research. Partnerships from companies that operate in other industries or other countries might also add further substances to this research. Since the cases of this analysis were critical incident driven, it is interesting to compare them with cases that were not embedded in social dramas. A comparison of good and bad performing partnerships can add knowledge as well. Further partnership alchemy elements or further partnership building patterns might be discovered. Explanatory and prescriptive research directions of this extension of the partnership building research are similar to the continuation road.

Apart from the continuation and extension of this research project that emphasised the macro level of stakeholder partnership building, a third research road points towards a micro perspective of partnership building that focuses on issues such as perceptions, motivations or learning of the individuals that are involved in stakeholder partnerships.

10.3 IMPLICATIONS FOR POLICY AND PRACTICE

After the Rio summit of the UN in 1987 and the Brundtland Report, sustainable development became a guideline for future development of business, government and society. New governance mechanisms, partnership building, and accountability are integral parts of this concept. The mobile information society is in the process of forming a new global reality, is initiating a new phase of social transformation and intensifying the process of international networking. "There appears to be a need to redefine the relationship between society and community around the world." (Weidendeld 1998, p. 63) The findings of this research provide policy makes with driving characteristics of partnership alchemy that need to be incorporated into policy in order to pave the way for practice that leads to sustainability.

Globalisation offers opportunities for stakeholder partnership building, but it also represents a challenge, since international networking entails an increased measure of interdependence and susceptibility to disturbances, generates interactions between societies. Corporations, societal groupings, governments, and non-government institutions must develop into learning organisations and built stakeholder partnerships for sustainable development. Unfettered competition amongst ideas, intellectual freedoms, and responsible attitudes are what is required to achieve economic, political and societal sustainability. The strategic essential concept lies in combining awareness of the challenges with well-founded thinking on how we want to live tomorrow. Partnerships support the process of joining forces for sustainable development and this research offers four alternatives, depending on the specific purpose of the stakeholder partnership.

The descriptive patterns of stakeholder partnership building are of interest to the thinking of strategists of business that is or will moving to organise itself into a network corporation: fungible modules built around information networks, flexible work forces, outsourcing and webs of strategic partnerships. Organisational boundaries are becoming fuzzy. Traditionally external stakeholder groups such as suppliers, customers, NGOs and communities are included in policy making, strategy formulation, product design and other formerly confidential internal processes. Purposes, pacts, power relations and processes are becoming more important than strategies, styles, skills, staff, systems and structures.

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APPENDICES

Appendix A: Glossary of Selected Terms[5]

Business & Society – Business and society has two meanings. (1) It refers to the relationship that business firms have with society's institutions and nature's ecosystems. (2) The term also refers to the field of management study that describes, analyses, and evaluates these complex societal and ecological links.

Corporate Philanthropy – Philanthropic business activity is the distribution of excess profits after other claimants, such as shareholders, have been paid. It is a voluntary activity on the part of business and is normally part of everyday business functioning.

Corporate Social Responsibility – The term refers to an organisation's obligation to maximise its long-term positive impact, and to minimise its negative impact on society. The idea pre-supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society, which extend beyond these obligations. It implies bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, values, and expectations.

Licence to Operate – This is a concept which determines the organisation's right to continue conducting business. It is often used to gauge the level of consumer satisfaction and to understand customer needs. A firm's members or stockholders decide whether to award the licence after reviewing the different aspects which affect a firm's performance. A considerable emphasise is placed on the ethics of the organisation, which includes its awareness of environmental issues, its involvement in the community, its impact on society and its attitude toward its employees.

Partnership – Partnerships are trust-based collaborations between individuals and/or social institutions with different objectives that only can be achieved together. The basis for successful partnerships is an agreement about rules for co-operation. A higher consensus means less regulated partnering because of a minimised conflict potential.

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[5] These are the Author's definitions applied for this study.

Social Capital – This is the sum of the actual and potential resources embedded within, available through, and desired from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilised through that network.

Social Investment – Social investment is a way of spending money responsibly. Major application areas are stock market investments, which exclude unethical business and promote ethical ones; shareholder and consumer activism; and community finance initiatives, such as credit unions, which promote investment in disadvantaged neighbourhoods.

Social Risk – Risk can be simply defined as exposure to change. It is the probability that some future events, or set of events, will occur. Risk is a systematic way of dealing with hazards and insecurities induced and introduced by modernisation.

Stakeholder – The broadest definition of stakeholder brings in anyone who affects or is affected by a company's operations. The key new perception is that companies need to expand the range of interests considered in any new development from customers, shareholders, management, and employees to such people as suppliers, governments, communities, and pressure groups.

Sustainability – There are over hundred definitions of sustainability and sustainable development, but the best known is that of the World Commission on Environment and Development. This suggests that development is sustainable where it 'meets the needs of the present without compromising the ability of future generations to meet their own needs'.

Triple Bottom Line – Sustainable development involves simultaneous pursuit of economic prosperity, environmental quality, and social equity. Companies aiming for sustainability need to perform not against a single, financial bottom line but against the triple bottom line.

Values Shift – Over time, human and social values change. Concepts that once seemed extraordinary (e.g., emancipating slaves, enfranchising women) are now taken for granted. New concepts (e.g., responsible consumerism, environmental justice, intra- and inter-generational equity) are on the agenda towards sustainability.

Appendix B: Interview Schedule

The interview schedule in phase one involved discussion with key managers and stakeholder opinion leaders of British Petroleum and Hoechst. The interviewees were involved in relationship-building activities between the company and its stakeholders. Managers' involvement varied according to their responsibilities within the company, while stakeholders' involvement varied according to the social context. The interviews lasted between one and three hour. A variation of the following questions was asked, depending on interviewees' involvement in the issue of interest:

- Could you tell me something about your job and your responsibilities?
- What do you think about the company and its responsibilities?
- Is there conflict potential between the company and its environment?
- What factors instigated social risks? What was the social challenge?
- Can you identify the variety of stakeholders engaged in risk management?
- What factors made these stakeholders so important?
- Were some more important than others?
- Could you describe the process of stakeholder partnering?
- To what extend did firm's objectives and those of the stakeholders come into conflict?
- What were the process characteristics of stakeholder engagement?
- What was the role of stakeholders?
- What was the role of the firm in these processes?
- Which factors were more important than others in dealing with stakeholders?
- How did the nature of stakeholder relationships influence risk management?
- What did you learn from stakeholders for the management of social risk?

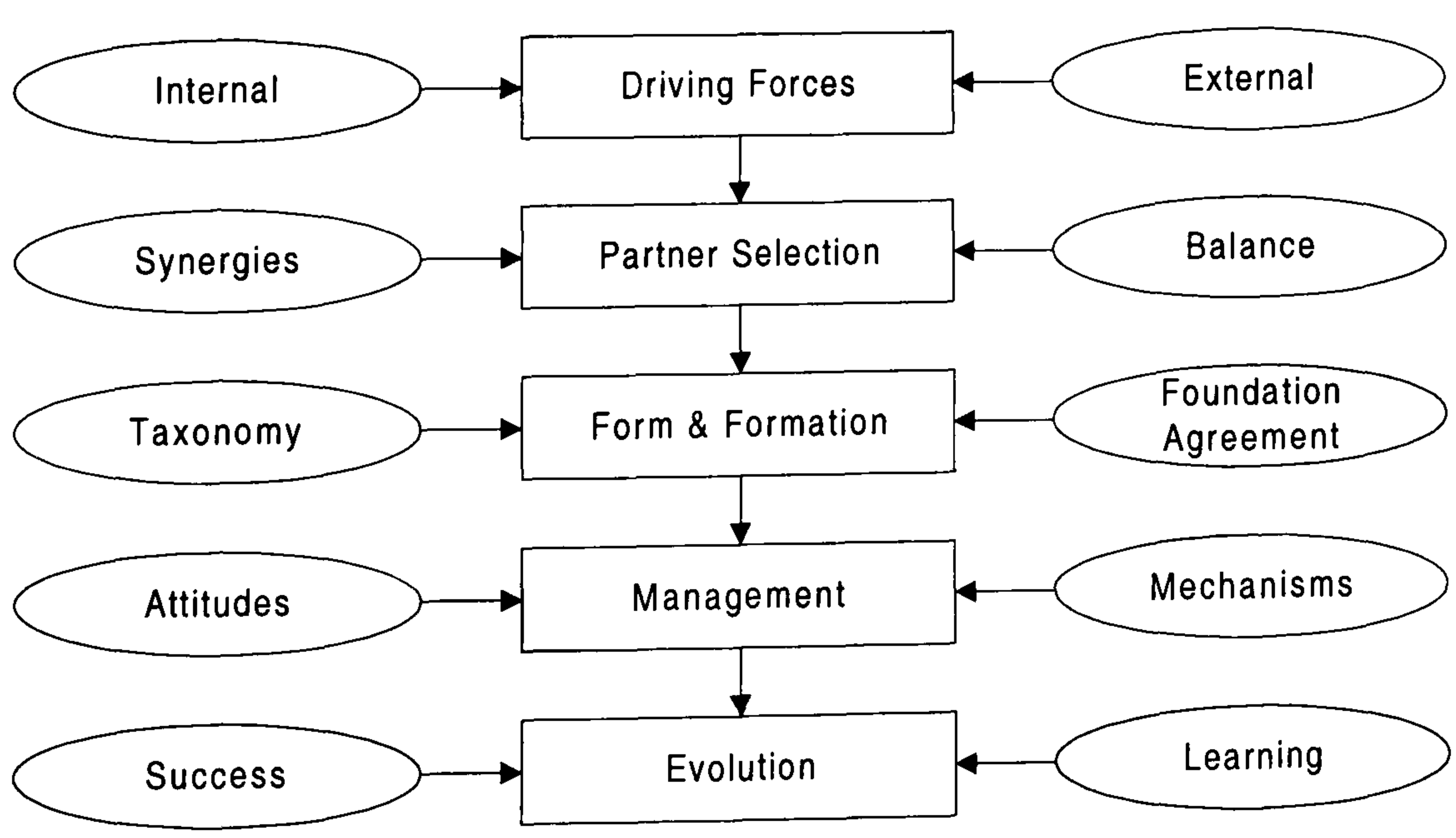

Figure 19 Interview Framework (Faulkner & McGee, 1997)

Appendix C: List of Contacts for the Hoechst Case

Interviewees within the Company:

Clariant; Board of Directors, Head of Politic/Society

Hoechst and Hoechst Marion Roussel, Head of Union Representatives

Hoechst and InfraServ Höchst, Head of Environment and Safety

Hoechst Marion Roussel, Corporate Communications Manager

Hoechst Marion Roussel, Health Safety Environment Advisor

Hoechst Marion Roussel, Public and Governmental Affairs Manager

Hoechst Marion Roussel, Vice President, Policy and Politics

Hoechst Schering AgrEvo, Corporate Development, External Affairs Manager

Hoechst, Chief Economist, Project Co-ordinator PROSA

Hoechst, Emergency Manager

Hoechst, Head of Corporate Controlling and Development

Hoechst, Head of Hoechst Foundation

Hoechst, Head of Public and Government Affairs

Hoechst, Investor Relations Manager

Hoechst, Managing Director, Director Personnel, Messer Group and Hostalen PE

Hoechst, Public and Government Affairs Manager

Hoechst, Senior Executive

InfraServ Höchst, Chief Executive Officer

InfraServ Höchst, Head Corporate Communications

InfraServ Höchst, Head of Fire Brigade

InfraServ Höchst, Head of Medical Service

Interviewed Stakeholders:

B.U.N.D., Local Co-ordinator

Bürgerinitiative Hoechster Schnüffler un Maagucker, Co-ordinator

City Council Frankfurt am Main, Head of Health Department

Degussa, Head of Board Office

Department for Environment Stadt Frankfurt am Main

Federation of the Chemical Industry, Head of Technique and Environment

Federation of the Chemical Industry, International Affairs, Head of External Relations

Federation of the Chemical Industry, Member of Board of Directors

Goldsteiner Umweltschützer, Co-ordinator

Greenpeace, Hamburg, Head of Chemistry Division

Head of 'Chemical Industry' at the Federal Ministerial for Environment Hesse

Kreis Schwanheimer Mütter, Co-ordinator

Local Agenda 21 – Head of Department for Environment, Frankfurt am Main

Local Agenda 21, Speaker for Environment, Liberal Democrats Frankfurt

Magistrat Frankfurt, Head of Education, Health, Safety and Environment

Moderator Local Agenda 21 - Hessischer Rundfunk
Mütterinitiative Heriette-Fürth-Straße, Co-ordinator
Öko-Institut, Co-ordinator Chemistry Division
Öko-Institut, Head of Chemistry Division
Öko-Institut, Manager with Responsibility for Safety of Production Equipment
Öko-Institut, Member of Chemistry Division
State Ministerial for Environment, Co-ordinator
WBCSD, Corporate Social Responsibility, Co-ordinator
WWF-Panda Fördergesellschaft, Head of Business Partnerships

Observations:

Hoechst Schering AgrEvo, Strategy Meeting
Two Community Discussion Group Meetings

Appendix D: List of Contacts for the BP Case

Interviewees within the Company:

BP Archive, Group Archivist

BP Conservation Programme, Programme Manager

BP Group, Director Regional Latin America

BP International Representative at the WBCSD

BP International, Community Affairs Advisor for Mozambique, Nigeria, Angola

BP International, Community Affairs Manager

BP International, former Head of Community Affairs

BP International, Group Vice President - Regions & Policies

BP International, Head of Community Affairs

BP International, Head of Investor Relations

BP International, Head of Recruitment

BP International, Health Safety Environment Advisor

BP International, Legal Advisor

BP International, Manager Government & Trade Affairs

BP International, Manager, External Environment

BP International, Managing Director with Responsibility for Regions and Policies

BP International, Media Relations

BP International, Policy Advisor

BP International, Regional Advisor

BP International, Senior Policy Advisor

BP International, Senior Political Advisor, formerly BPX Colombia Head of Legal

BPX Colombia, former President

BPX Colombia, Governmental and Public Affairs, Co-ordinator

BPX Colombia, Governmental and Public Affairs, Economical Analyst

BPX Colombia, Governmental and Public Affairs, Political Analyst

BPX Colombia, Head of External Affairs

BPX Colombia, Head of Governmental and Public Affairs

BPX Colombia, Head of Security

BPX Colombia, Health Safety and Environment Manager

BPX Colombia, Legal Advisor, External Affairs Advisor

BPX Colombia, Senior Environmental Advisor, Planning and Permissions

Interviewed Stakeholders:

Amnesty International UK Business Group, Chair

BT, Head of Corporate Reputation & Social Policy Unit

CAFOD, Policy Advisor

Catholic Institute for International Relations (CIIR), Co-ordinator

Christian Aid, Co-ordinator

Coalition against BP in Colombia, Co-ordinator
Colombian Business Council for Sustainable Development, Executive Director
Corporate Citizenship Company, Director
Council on Economic Priorities, Director Europe
Department for International Development, Business Development Advisor
Guardian, Journalist
Human Right Watch, Policy Advisor
INTRAC, Co-ordinator
INTRAC, Head of Research
Judge Institute of Management Studies, University of Cambridge, Research Fellow
Mayor of Bogota-Suby, formerly BPX Colombia, Head of External Affairs
New Economics Foundation, Research Director
Oxfam, Policy Advisor
Prince of Wales Business Leaders Forum, Director Policy & Research
Prince of Wales Business Leaders Forum, Policy Co-ordinator
Rio Tinto, Environmental Policy Advisor
Safe the Children Fund, Co-ordinator
Shell International, External Affairs, Head of Corporate Relations
World Bank, Business Partners for Development, Co-ordinator
World Bank, Environmental Consultant
WWF-UK, Corporate Partnerships, Co-ordinator
WWF-UK, Director of Programmes

Observations:

BP Corporate Policy Department, Office Observation
BP Senior Policy Advisor, Case Study Presentation BPX in Colombia
BPX Head of Community Affairs and Associate President BPX Angola, Presentation